



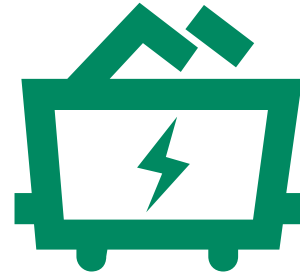
# **Directors' Report on Operations Lubelski Węgiel Bogdanka S.A. in 2015**

Bogdanka, 21 March 2016



**11.9%**

Share in the hard coal market in Poland



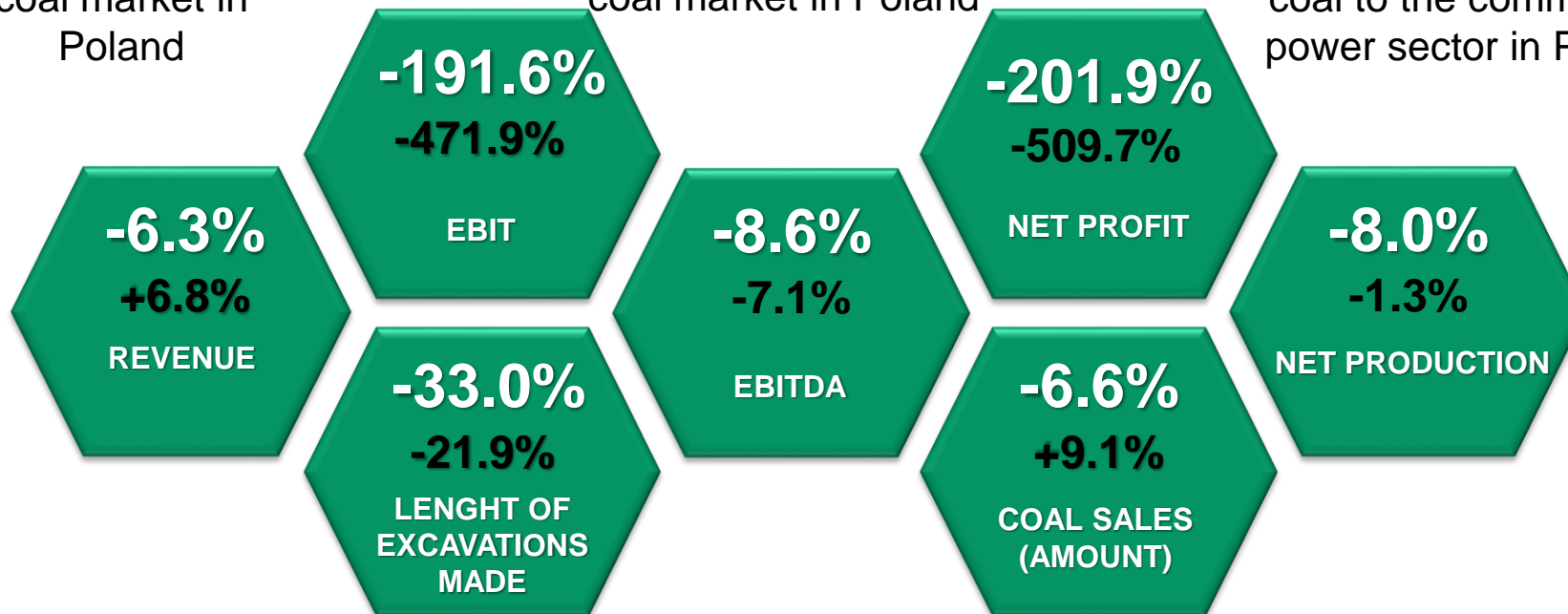
**14.4%**

Share in the thermal coal market in Poland



**22.5%**

Share in the supplies of coal to the commercial power sector in Poland



Change 2015 / 2014



Change Q4 2015 / Q4 2014



## LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD



Dear Sir/Madam,

I am very pleased to present the separate annual report of LW Bogdanka S.A. for 2015. It was an extremely complicated period for us, full of challenges that we have never encountered before, since the very beginnings of the Company. The falling coal prices, which in international markets dropped by 27% per annum to about USD 50 per tonne, thus reaching historical bottom levels, the over-supply of raw material and the huge reserves held by one of the main domestic customers, the decreased demand for coal, and the complicated situation of Silesian mines are just a few of the market circumstances we had to face in 2015. In order to adapt to them, we were forced to review the commercial coal production plan, as a result of which we produced 8.5 million tonnes, which is 8% less than in 2014. Optimised extraction was the key element of the plan that we implemented in 2015 to adapt the Company's operations to the selling opportunities in the increasingly more difficult market. In addition, the plan included cost reduction as well as measures aimed at the optimisation of capital expenditure and workforce. We succeeded at implementing our plan: we generated nearly PLN 1.9 billion of revenue from sales and EBITDA of almost PLN 678.2 million. We also maintained a satisfactory EBITDA margin, which reached 36% in 2015 and remained at a level that is above average in the industry. The operating results obtained in the previous year were negative, which was due to the fact that an impairment charge was applied with respect to fixed assets and intangible assets in the amount of PLN 624.8 million.

The impairment charge was a one-off accounting operation, without any impact on the current operating activities of the Company or its liquidity. Without this impairment charge, we would have generated operating profit of PLN 296.3 million and net result of PLN 228 million, which should be considered satisfactory, given last year's market situation.

2015 saw also significant changes to the shareholding structure of the Company. As a result of the tender offer to subscribe for the shares of LW Bogdanka S.A. announced on 14 September by Enea S.A., Enea S.A. purchased 64.57% of these securities on 29 October, and together with its subsidiary, Enea Wytwarzanie sp. z o.o., is now holding a total of 66% of the shares of Bogdanka. Being part of a large energy group gives us new opportunities, including, primarily, a stabilisation of the level of the raw material sold and its potential increase in connection with the supplies for the new unit in Kozienice.

Our Company has always been successful at competing with its efficiency based on economic calculation. Last year was no different – Bogdanka maintained the position of cost leader among domestic producers of hard coal and the most effective mine in Poland. We will do our best to ensure this continues to be the case in the future.

The next few years are expected to be as difficult as the previous year. There are no signs that coal prices will increase, and the situation of Silesian mines will significantly improve. Having learnt the lesson in 2015, we are well prepared to face these circumstances and challenges. We have adjusted coal production to the selling opportunities, we continue to implement the cost optimisation plan, and we maintain a safe level of financial liquidity – all of which distinguishes us in the Polish mining industry. We are also intensely involved in certain actions aimed at entering new markets, including those abroad, and acquiring new customers, especially among SMEs.

In the current difficult and volatile market situation, what we want for the Company is to ensure, on the one hand, its financial stability, and, on the other hand, flexibility of its operating activities. This will enable us, should the selling opportunities improve, to increase production and use our capacity more effectively.

LW Bogdanka S.A. It is the most efficient and modern mine in Poland. It has all the assets necessary to ensure that we will once again cope with difficult market conditions and strengthen our business position for the benefit of all stakeholders.

Best regards,

President of the Management Board of LW Bogdanka S.A.



## 1. Summary of operational activities



1. <u>Summary of operational activities</u>	4-7
<u>Selected financial data and key operating data</u>	5
<u>Key events in 2015</u>	6-7
2. <u>Organisation and business activities of LW Bogdanka S.A.</u>	8-52
<u>Structure of the Group</u>	9
<u>Description of business activities</u>	10-13
<u>Development strategy</u>	14-15
<u>Undertakings and investments</u>	16-18
<u>Licences</u>	19
<u>Agreements</u>	20-23
<u>Business Environment</u>	24-28
<u>Risk management</u>	29-36
<u>Occupational health and safety</u>	37-38
<u>Natural environment</u>	39-40
<u>Workforce</u>	41-42
<u>Remuneration</u>	43
<u>Other information</u>	44-48
3. <u>Financial situation</u>	49-63
4. <u>Shares and shareholding</u>	64-70
5. <u>Governing bodies</u>	71-77
6. <u>Corporate governance</u>	78-94
<u>Glossary</u>	95-99
For a detailed index of matters discussed in this Report refer to page 97	

**Good financial and operating results are a consequence of optimising LW Bogdanka S.A.'s production capacity on a difficult market in 2015.**

In 2015, LW Bogdanka S.A. generated:

- net revenue of **PLN 1,883.1 million** – decrease by 6.3% y/y
- EBITDA of **PLN 678.2 million** – decrease by 8.6% y/y
- net loss of **PLN 278.0 million**

In the fourth quarter, **revenue** amounted to PLN 558.4 million (an increase of 6.8% y/y), **EBITDA** equalled PLN 225.5 million (a decrease of 7.1% in comparison with the previous year), while **net profit** totalled PLN -412.3 million.

The graph below presents factors affecting financial results of LW Bogdanka S.A.:

<ul style="list-style-type: none"> <li>• stabilisation of an average sale price y/y, due to such factors as higher coal quality</li> <li>• continued high efficiency despite lower extraction</li> <li>• implementation of a cost optimisation programme</li> </ul>	<ul style="list-style-type: none"> <li>• impairment loss on the property, plant and equipment</li> <li>• situation on the coal market remains difficult</li> <li>• no possibility to use full production capacity</li> </ul>

In 2015 LW Bogdanka S.A. was consistently pursuing its cost optimisation programme, which allowed it to reduce its costs by type by **PLN 187.4 million**.

LW Bogdanka's investment outlays in 2015 amounted to approx. PLN 281.9 million, which is 60% less than last year. Despite intense development and simultaneous reduction of the CAPEX programme (by PLN 278.9 million in comparison with the plan), LW Bogdanka S.A. retained the ratio of net debt/EBITDA on the level of 0.7.

In the previous year in comparison to 2014, the Company reduced the extraction of thermal coal from 9.2 million tonnes to 8.5 million tonnes. The reason was to adjust production to the Company's sales capacity.



### Consistent actions towards doubling exploitable resources

At the moment, the Company is taking actions under the prospecting licence for deposits in the Ostrów and Orzechów areas, and is compiling the documentation required to submit an application for a mining licence with respect to these areas.

In 2015, the Company drilled OS-1 hole in the Ostrów area and prepared the associated geological documentation. On 10 November 2015, the Company received the awaited decision amending the prospecting licence, which extended its validity by 12 months and enabled the drilling of two holes: OS-4 (under-shaft hole) and OS-4 bis (additional prospecting hole). At the same time, the Company is gathering documents required to submit an application for a mining licence, which included filing an Environmental Impact Report with the Regional Directorate for Environmental Protection in December. In connection with the refusal to grant a mining licence for deposits K-6 and K-7, the Company filed a complaint with the Provincial Administrative Court in Warsaw. We are currently waiting for it to be examined.

### Adapting the business to the difficult market conditions

In connection with the market situation resulting from the collapse of prices in the world markets, the sell-off of stocks of coal by Kompania Węglowa, and hence significant reduction of the market for coal sales in Poland, the Company has adopted an action plan in order to adjust to the new difficulties. For this purpose, we prepared and analysed a number of scenarios for action in the short and long term. The following has been adopted as an optimum scenario:

- Continued exploitation of the Bogdanka and Stefanów Fields, commencing extraction from new Ostrów and Orzechów areas and, later on, the K6-K7 areas, making use of the existing mining infrastructure (without the need to build new shafts and increase yield);
- Limiting development investments to those essential from the viewpoint of opening new deposits, especially in the period between 2015 and 2017, and reviewing the planned investment outlays aimed at increasing production capacity until 2020;
- Optimising the level of production to reflect the market conditions, especially in the period between 2015 and 2017, at the same time increasing the yield from thicker seams

(automated mining technology);

- Optimising the long-term investors' return, taking into account market risk.

The variant selected by the Management Board is the most flexible and provides for the possibility to restore planned production growth or even to expand it.

At present the Management Board is working on a multi-variant analysis of the Company's operations, taking into account the foreseen potential coal market development scenarios (demand and prices) until 2020, which will form the grounds for drawing up a revised Strategy.

In 2015, in connection with forecasts expecting further pressure on global coal prices and oversupply on the Polish market caused by aggressive price policy of KW S.A., LW Bogdanka S.A. adopted for implementation a "conservative scenario".

LW Bogdanka S.A. assumed as the key objective in 2015 to "secure cash" through significant savings in costs and investment plans, based on three basic elements:

- optimisation of production plan to approx. 8.5 million tonnes
- significant reduction of "permanent" employment (by approx. 400 people) and outsourced services
- limiting investment outlays (LW Bogdanka S.A.) to approx. PLN 281.9 million

### Termination of agreement by Enea Wytwarzanie sp. z o.o.

On 21 August, Enea Wytwarzanie terminated its long-term Agreement with LW Bogdanka S.A. for the supply of coal, entered into in 2010. The subject matter of the Agreement was the supply of thermal coal to the Enea Wytwarzanie S.A. power plant in Kozienice from 4 March 2010 to 31 December 2025. The Agreement was terminated by Enea Wytwarzanie under Article 13 of the Agreement, i.e. as a result of the Company and Enea Wytwarzanie failing to agree, by way of negotiation, on the price for the following calendar year (2016) on the first three consecutive negotiation dates of the four provided for in the Agreement. As a result of the termination notice submitted by Enea Wytwarzanie, the Agreement will terminate in 1 January 2018. Therefore, the prices of thermal coal supplies in 2016 and 2017 will be determined in accordance with a pricing formula based on the supply prices in the domestic and international market and on the consumer and producer price indices. The volumes of thermal coal supplies based on actual needs and arising from the Agreement are not changing in relation to the volumes contracted for these years in the Agreement before the termination notice was submitted.





### Joining the Enea S.A. Group

On 14 September 2015, Enea S.A. announced a tender offer for the shares of LW Bogdanka S.A., in which it stated that it intended to acquire up to 64.57% of the total number of votes at the Company's General Shareholders Meeting. As a result of the tender offer, Enea S.A. wanted, together with its subsidiary (Enea Wytwarzanie sp. z o.o.), to obtain 22,448,969 Shares, carrying 66% of the total number of votes at the Company's General Shareholders Meeting. In their statements, both the Management Board of LW Bogdanka S.A. and the trade unions of the Company were positive about the proposal made to the shareholders in the tender offer. On 29 October 2015, Enea S.A. acquired the number of shares declared in the tender offer, thus obtaining, together with its subsidiary, 66% of the Company's shares and the right to the same percentage of votes at the Company's General Shareholders Meeting.

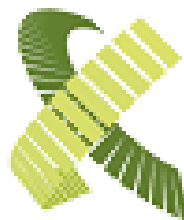


### Changes in the Company's governing bodies

The ownership changes at the Company triggered some government changes. On 16 November 2015, the following persons were appointed to the Supervisory Board: Ms Dalida Gepfert, Ms Magdalena Kaczmarek, Mr Bartosz Krysta, Mr Krzysztof Matan, Mr Paweł Orlof and Mr Michał Stopyra. As a consequence, the composition of the Management Board has also changed. On 23 November 2015, the dismissed members of the Management Board were replaced with newly appointed members: Mr Piotr Janicki as Vice-President for Economic and Financial Affairs and Mr Jakub Stęchły as Vice-President for Purchases and Investments. Due to their dismissal from the Management Board of Enea S.A., Mr Paweł Orlof stepped down as a member of the Supervisory Board of LW Bogdanka S.A. on 9 December 2015.

### Obtaining the Investor-Friendly Company certificate

LW Bogdanka S.A. has joined the group of Companies awarded by the Association of Individual Investors with the 10 out of 10 – Investor-Friendly Company certificate. 10 out of 10 – Communicate Effectively is a programme prepared by the Association of Individual Investors under the honorary patronage of the educational campaign Civic Shareholding. Invest Consciously. The programme awards companies that apply best communication practices in accordance with the expectations of investors, both in terms of form and frequency of action. To obtain the certificate, the Company had to undergo an audit, which showed that it met all the requirements laid down in the Programme's Terms and Conditions, and thus the highest standards of communication with investors.



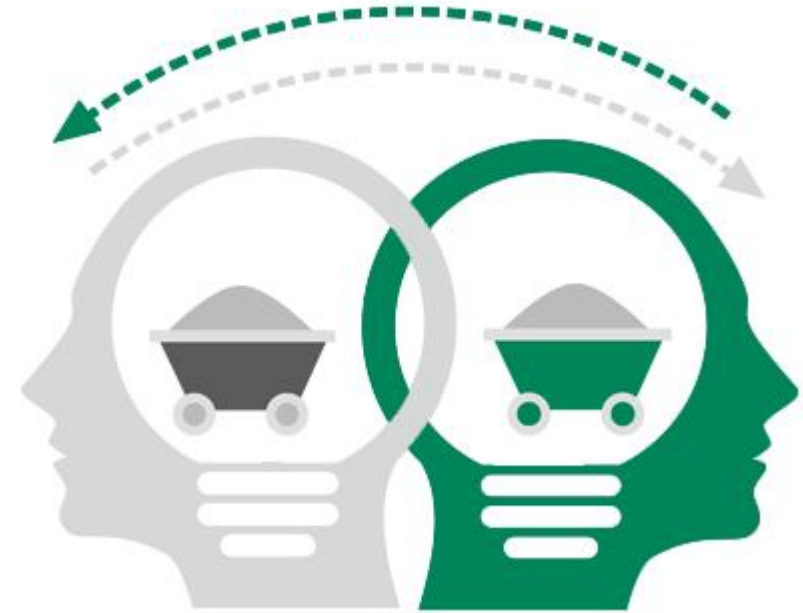
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### Bogdanka in the 9th edition of RESPECT Index

On 16 December, the Warsaw Stock Exchange announced the composition of the Respect Index (9th edition) for socially responsible companies. It contained 23 companies, including (not for the first time) LW Bogdanka S.A. The Respect Index portfolio covers Polish and foreign companies from the WSE Main Market which act in accordance with the best standards of management as regards corporate governance, information governance and investor relations, and taking into account ecological, social and employee factors. The companies that make it to the Index undergo a three-stage verification carried out by the WSE and the Polish Association of Listed Companies in the above-mentioned areas, as well as an audit conducted by the project partner – Deloitte.

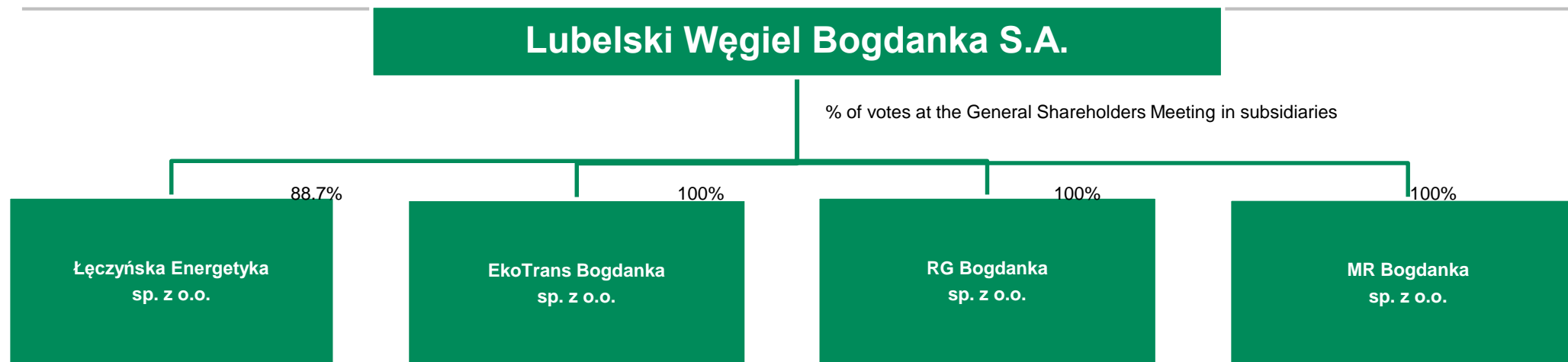
The new Respect Index is valid from 21 December 2015.





## 2. Organisation and business activities of LW Bogdanka S.A.





Company name	Company's share in the share capital		Share capital	Main activity
	31 Dec. 2014	31 Dec. 2015 and 21 Mar. 2016		
<b>Łęczyńska Energetyka sp. z o.o.</b>	88.70% (73,332 shares)	88.70% (73,332 shares)	PLN 82,677,000 divided into 82,677 shares of PLN 1,000 each	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water
<b>EkoTRANS Bogdanka sp. z o.o.</b>	100.00% (100 shares)	100.00% (100 shares)	PLN 100,000 divided into 100 shares of PLN 1,000 each	comprehensive transport organisation and recovery of spoil arising during coal-associated shale washing and cleaning
<b>RG BOGDANKA sp. z o.o.</b>	100.00% (10,000 shares)	100.00% (10,000 shares)	PLN 500,000 divided into 10,000 shares of PLN 50 each	services, deliveries and mining works for LW Bogdanka S.A.
<b>MR BOGDANKA sp. z o.o.</b>	100.00% (20,000 shares)	100.00% (20,000 shares)	PLN 1,000,000 divided into 20,000 shares of PLN 50 each	repairs, regeneration and production of steel constructions, providing services to LW Bogdanka S.A.

As at the date of submitting the Report, LW BOGDANKA also holds 22.41% of shares in Kolejowe Zakłady Maszyn KOLZAM S.A., the company in bankruptcy, with a share capital of PLN 750,000. The ownership title to the shares was transferred to the Company as security for settlements for the provision of transport services. That company has not been included in the consolidation.

**Changes in basic management rules of LW Bogdanka S.A. and the LW Bogdanka Group**

In order to make the rules of management of LW Bogdanka S.A. more precise, the following steps were taken in 2015:

- uniform text of the Social Benefits Fund Regulations was introduced;
- amended "Terms and Conditions of Coal Sales" were introduced;
- an Integrated System was introduced to incorporate the existing Security Management System (SMS) and the newly-

- established Maintenance Management System (MMS) in Railway Transport and internal regulations of a railway carrier of Lubelski Węgiel Bogdanka S.A.;
- rules of planning purchases of real properties by the Company and rules of procedures for the acquisition of real properties were formulated;
- a Representative for Railway Transport Maintenance Management System at the Company was appointed;
- a procedure for managing property, plant and equipment, as well as intangible assets was introduced;

- new Employment Regulations and Rules for Awarding Sales Representatives of the Company's Sales Department were introduced.
- The Company has updated its existing documentation and introduced the new ones in order to increase transparency and streamline a delivery service process.



## Company name and registered office

### Lubelski Węgiel Bogdanka Spółka Akcyjna

Address: Bogdanka, 21-013 Puchaczów, woj. lubelskie  
Phone: +48 81 462 51 00, +48 81 462 51 01  
Fax: +48 81 462 51 91  
www: [www.lw.com.pl](http://www.lw.com.pl); [www.ri.lw.com.pl](http://www.ri.lw.com.pl)  
REGON: 430309210  
NIP: 713-000-57-84  
E-mail: [bogdanka@lw.com.pl](mailto:bogdanka@lw.com.pl)



### Legal form and regulations which provide a basis for the Company's activities

LW Bogdanka S.A. is a joint-stock company operating under the laws of Poland.

The Company operates on the basis of legal acts which include the following:

- Act of 15 September 2000 - Commercial Companies Code  
(Dz. U. [Journal of Laws] of 2000, No. 94, item 1037, as amended)
- Act of 9 June 2011 - Geological and Mining Law  
(Dz. U. [Journal of Laws] of 2011, No. 163, item 981, as amended)

The founder of the Company is the State Treasury, represented by the Minister of the State Treasury.

The Company may operate in Poland and abroad.

The Company was established for an indefinite term.

### History in Brief

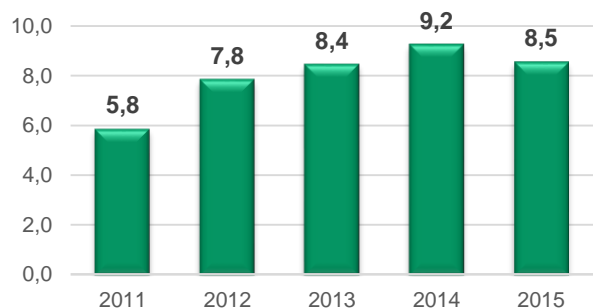
- 17 January 1975 - decision on construction of a pilot and excavation mine in Bogdanka. Bogdanka was one of the seven mines which were to be built in the Lublin Coal Basin, but ultimately it turned out to be the only one to materialise after the project was suspended.
- 1 March 1993 - transformation of a state-owned enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A.
- 29 December 1994 - in performance of a bank settlement, as a result of debt conversion, KWK Bogdanka S.A. ceased to be a company wholly owned by the State Treasury, as the new shareholders (creditors) took up 4.0% of shares in the Company.
- 25 June 2009 - debut on the Warsaw Stock Exchange.
- 9 March 2010 - the State Treasury sold 46.69% of shares in the Company on the Stock Exchange. Therefore, it ceased to hold a majority in the Company's share capital.
- 4 January 2012 - 3,208,111 employee shares were introduced to trading on the Warsaw Stock Exchange.
- 4 February 2013 - another lot of 34,754 shares were introduced. LW Bogdanka's public float totals 34,013,455 shares. As at the date of publishing this Report, the remaining 135 shares are registered shares.
- 14 September 2015 - Enea S.A. announced a tender offer for the shares of LW Bogdanka S.A., in which it stated that it intended to acquire up to 64.57% of the total number of votes at the Company's General Shareholders Meeting.
- 29 October 2015 - LW Bogdanka S.A. became part of the Enea Group.





## Activities of LW Bogdanka S.A.

In 2015 LW Bogdanka S.A. extracted 8.5 million tonnes of hard coal, which accounted for 15.8% of total thermal coal extraction in Poland.



LW BOGDANKA S.A. has three excavating fields:

- Bogdanka
- Nadrybie
- Stefanów

The core business of the Company is the production and sales of hard coal, and especially power fine coal. In 2015, the coal production structure was as follows:



### Key customers

As a supplier, LW BOGDANKA S.A. mainly cooperates with industrial customers from eastern and north-eastern Poland. The market is stable and sales transactions are based on long-term agreements. LW Bogdanka S.A. sells its coal mainly to commercial and industrial power plants.

The largest customers of LW Bogdanka S.A. include

- The Enea Group - Elektrownia Koźienice S.A. – about 42% of revenues
- ENGIE Polska Energia S.A. – about 20% of revenues
- Energa Elektrownie Ostrołęka – about 11% of revenues
- PGNiG Termika S.A. – about 9% of revenues

LW Bogdanka S.A. strives to ensure that its commercial proposal meets the needs of its customers. The Company is aware that products offered by the mine must meet the relevant requirements and the customers' needs, but also need to be affordable.





## Activities of LW Bogdanka S.A.

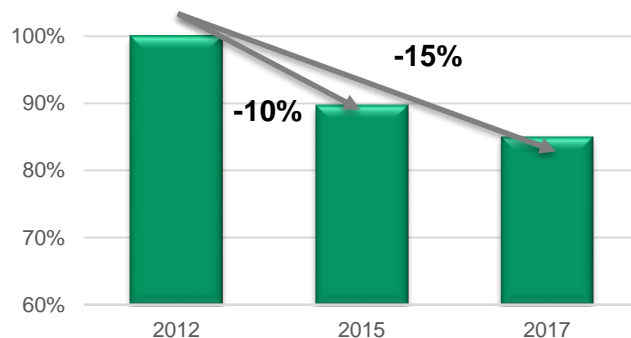
### Cutting-edge technologies

LW Bogdanka S.A. cares for its employees' safety and for the environment. It utilises the most advanced technologies and world-class machines and equipment in its extraction processes. As a result, it is the leading mine with the highest efficiency and effectiveness ratios in Poland. LW Bogdanka S.A.'s underground efficiency rate is twice as high as the average for Poland's coal mining sector.

### Cost control

LW Bogdanka S.A. is still the efficiency leader in Poland's mining sector. Its strategy assumes a 15% reduction of the Unit Mining Cash Cost by 2017, compared to the 2012 level, in real terms. The Company consistently implements the Cost Optimisation Program. In 2014, it achieved a 10.0% real decline in the Unit Mining Cash Cost, compared to 2012.

Unit Mining Cash Cost (PLN/t)



### New deposits

In 2015, we continued to work on converting the prospecting licence into a mining licence for the Ostrów and Orzechów deposits, which would allow it to make an additional use of about 400 million tonnes of exploitable resources. LW Bogdanka S.A. also continues its efforts to obtain a mining licence for the K6-K7 area. The Company filed a complaint with the Provincial Administrative Court in Warsaw on 12 December 2014 against the decision of the Minister of the Environment refusing to grant the licence.

### Towards a Smart Mine

We have built our success on smart solutions. We would not have achieved this without:

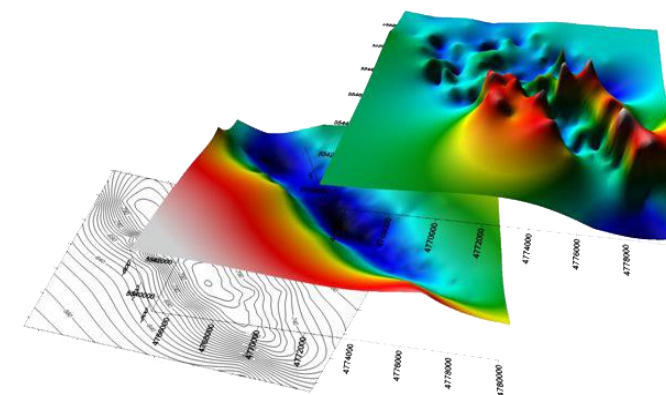
- Our staff – highly skilled, sharing our advanced technology-oriented culture, and focused on efficient cooperation and common goals;
- Our machines and equipment – highly efficient, reliable, energy saving, well chosen to existing geological and mining conditions, and enabling the mechanisation of both core mining and various auxiliary operations;
- Our efforts to eliminate hard physical work and dangerous work as far as possible by way of mechanisation and automation of underground work wherever feasible, including various auxiliary operations;
- Our leading-edge computer systems implemented in a variety of areas of mining operations to streamline technology processes, to monitor machines and equipment and to plan production, identify risks, etc. – with an overriding aim to increase the effectiveness of operations of our mine.

We have a deposit management system as the only underground mine in Poland:

- Digital deposit model (so far the only one in Poland's hard coal mining industry);
- Digital maps of mine excavations;
- Digital timetable of opening, preparatory and extraction works.

As part of the program, efforts are currently underway to develop :

- Decision-support system in the process of preparing deposits for extraction;
- Map of underground infrastructure facilities;
- Central database.





Production potential of LW Bogdanka S.A.

The mining area exploited by LW Bogdanka S.A. is divided into three mining fields:

- Bogdanka Field
- Nadrybie Field
- Stefanów Field

Shafts of the mine are located in:

- Bogdanka
- Nadrybie
- Stefanów

While the lifting shafts are located in:

- Bogdanka
- Stefanów

On 6 April 2009, LW Bogdanka S.A. obtained a hard coal mining licence for Bogdanka covered by the “Puchaczów V” mining area (seams 382, 385/2, 389 and 391) with the area of 73.3 sq. m, located in the Communes of Cyców, Ludwin and Puchaczów in the Lublin Province.

In addition, on 17 June 2014 the Company obtained a hard coal mining licence in the “Lublin Coal Basin □ area K-3” deposit, covered by the “Stręczyn” mining area (seams: 379/2, 385/2, 391) with the area of 9.38 sq. m, located in the Communes of Cyców and Puchaczów in the Lublin Province.



Deposit reserves of hard coal in Bogdanka updated as at 31 December 2015.

Reserves [million tonnes]	2013	year 2014	2015	Difference 2015-2014
Total balance	790.4	781.6	771.2	-10.4
Balance*	430.5	421.7	411.3	-10.4
Industrial	305.1	297.3	288.4	-8.9
Recoverable	230.5	224.3	217.3	-7.0

\*Balance reserves (covered by the licence)

Deposit reserves of hard coal in (Stręczyn – K-3) updated as at 31 December 2015.

Reserves [million tonnes]	2015
Total balance	145.7
Balance*	128.9
Industrial	23.6
Recoverable	19.0

\*Balance reserves (covered by the licence)





Vision, Mission and Market Position of LW Bogdanka S.A.

**Vision**

To become one of the world-class hard coal producers applying the highest work safety, environmental, automation and production digitisation standards. To maintain the efficiency leader position in the mining sector.

**Efficiency improvement**

- Invest in new technologies
- Modernise infrastructure
- Optimise production, processes and organisation
- Optimise the decision-support system in the process of preparation of deposits for extraction

To achieve:

Cost reduction in the production chain of the Company and higher efficiency.

**Development of resource base**

- Acquire new licences
- Explore new deposits in the region
- Optimise extraction in thin deposits

To achieve:

An increase, to 30%, in the Company's share in the domestic market of coal supplies for commercial power plants.

**Support for the region**

- Ensure the Company's staff development opportunities
- Support development of the Lublin Land of Mechatronics
- Offer sponsor support

To achieve:

Support for the local community and accomplishment of Corporate Social Responsibility (CSR) goals.

**Develop organisational skills and effectiveness**

- Reduce project implementation costs in LWB
- Ensure continuous monitoring of project costs
- Accelerate project implementation

To achieve:

Support for cost optimisation and coordinated implementation of strategic projects.

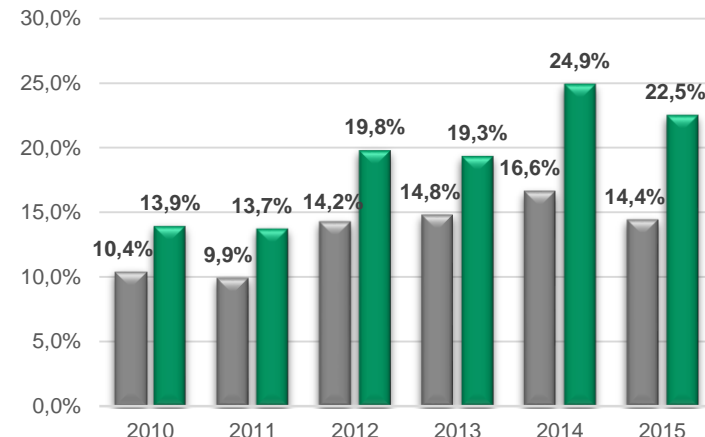
**Mission**

To reinforce the position of leading manufacturer and supplier of hard coal for the power industry, boasting the highest standards in terms of work safety, environmental protection and innovation, and maintaining competitive advantage to ensure sustainable growth of the Company's goodwill.

**Market Position**

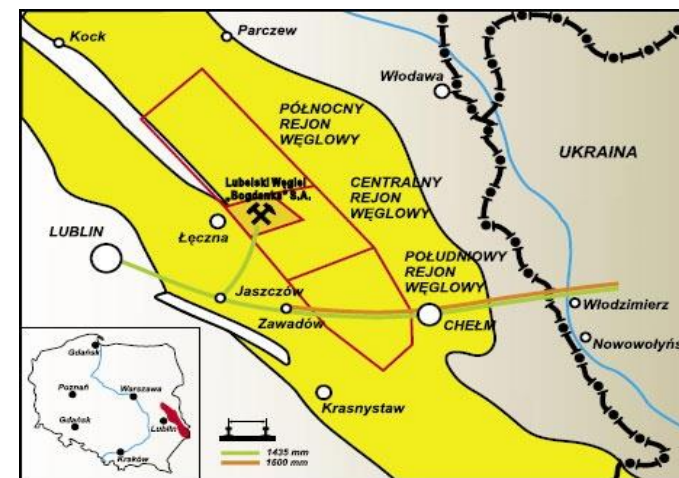
LW Bogdanka S.A. is one of the most technologically advanced and largest hard coal mines in Poland and, at the same time, the only thermal coal producer situated in eastern Poland (Lublin Coal Basin).

In 2015, LWB's share in the thermal coal market stood at 14.4%, and its share in the market of thermal coal sold to the commercial power industry was 22.5%.



■ Share of LWB's sales in the power coal market

■ Share of LWB's sales in the power coal market for commercial power industry





## Development Strategy of LW Bogdanka S.A.

Information on the current Strategy of the Company for 2013-2020, the progress in its implementation and the reasons for its updating have been presented in the Directors' reports from operations for 2014 published on 12 March 2015.

In connection with the changes to market conditions (drop in prices in world and Polish markets, increased supply, remaining coal reserves), the Company took a number of steps in 2015 to mitigate the negative effects of these developments and adapt itself to the dynamically evolving circumstances.

Due to the limited opportunities to sell, it has become necessary to reduce and adjust the production levels accordingly. The main objective for 2015 was defined as "securing cash" by significant savings in costs and investment plans, based on three primary assumptions:

- optimisation of the production plan to about 8.5 million tonnes,
- significant reduction of the "permanent" headcount (about 400 persons) and limiting the outsourced services,
- cutting down on capital expenditures (LW Bogdanka S.A.) to about PLN 282 million.

The above assumptions have been implemented, and as a result the Company obtained better results in 2015 compared to other domestic companies in the mining industry. This allowed the Company to increase its efficiency, while maintaining relative flexibility in terms of production capacity in the years to come.

In 2016, LW Bogdanka S.A. will continue to implement the optimisation actions and keep costs under strict control on the basis of a new plan which provides for commercial coal production of about 9 million tonnes. At the same time, the Company is working on acquiring contracts with small and medium customers in Poland as well as larger contracts abroad (e.g. in Ukraine).

In connection with the changes to the Company's shareholding structure, the Strategy for the subsequent years will be developed in correlation with the majority shareholder's (Enea S.A.'s) strategy.





### Projects completed in 2015 r.

In Q1 - Q4 2015, LW Bogdanka S.A. continued its investment projects in accordance with consecutive optimised plans. In 2015, capital expenditures for non-current assets totalled PLN 281,880,000.

The plan for Q1 - Q4 2015 covered the following groups of tasks: development investments, including the purchase of machines and equipment, and operational investments, including the use and upgrade of excavations in the Bogdanka, Nadrybie, and Stefanów Fields, as well as upgrades and repairs of machines and equipment, etc.



## INVESTMENTS IN LW BOGDANKA S.A.

### New licences

The Company was granted a mining licence for the K-3 area and a prospecting licence for the „Ostrów” deposit. The OS-1 test hole was drilled in the „Ostrów” areas and its geological documentation was prepared. The drilling plan was prepared for the OS-4 test hole.

### Machine and equipment maintenance

Purchase and assembly of new machines and equipment – by the end of the fourth quarter LW Bogdanka S.A. purchased and assembled machines and equipment for PLN a total amount of 21,548,000, including costs of assembling. The key machines include: a large heading machine, overhead diesel locomotives, mine track diesel locomotives, manipulators, air barrage, scraper conveyors, machine for disassembly of gallery lining, drilling and anchoring platform, pump unit and cooling and air cooling units.

Purchase of finished goods – purchased finished goods totalled PLN 11,226,00. The key purchased finished goods include: finished transport equipment (hoists, tracked bulldozer, excavated material transport sets), pumps and hydraulic units, electrical equipment (transformer stations, cable testers, generator), other finished equipment (fans, equipment for drilling holes in a ploughing panel, bar guillotine shear, tools categorised as fixed assets, bolting machines, purchase of computer and network hardware together with software).



## DEVELOPMENT INVESTMENTS

### Purchase and assembly of panel complexes

In 2015, the most important investment was the purchase and installation of the plough system 4 for wall no. 1/1/385, which enables the exploitation of mining walls up to 318 m long. In May, the installation was completed and plough system 4 was started, and wall no. 1/1/385 initiated the exploitation of seam 385 in Field I.

### New and upgraded excavations

In 2015, 19,969 m of roadway excavations were made. Reconstruction of roadway excavations were continued in accordance with the schedule. The cost of roadway excavation reconstruction in that period amounted to PLN 38,544,000, the expenditures to build new and to upgrade existing excavations totalled PLN 140,307,000.



## OPERATIONAL INVESTMENTS



## Other development and replacement investments

Central air conditioning of the Bogdanka Field – the contract with Łęczyńska Energetyka sp. z o.o. is being implemented. The building of the central air conditioning station in Bogdanka is complete, while the construction of the underground pipeline circuit together with equipment is continued.

Enlargement of the mining waste neutralization facility in Bogdanka – an amendment to the design is being prepared to increase the space of Stage I by purchased plot no. 289/5 and to obtain the permits to start the enlargement of Stage II Part 2. The process to buy the plots of land within the boundaries of Stage II and Stage III is continued.

Other operational investments: enlargement of the power grids and upgrades of the switching station and the 110/6 kV substation are continued. The 110/6 kV GSTR substation in Bogdanka and in Stefanów was completed. The repairs of side track on 19 – 24 km between Bogdanka and Jaszczów were finished.

Expenditures for excavations in 2015.

Excavations and works - total	Depreciation method	Length [m]	Value of coal from excavations [PLN '000]	Total investment outlays [PLN '000]	Investment outlays [PLN '000]
Wall excavations	Natural	14,828			
Basic excavations	Straight-line	3,459	58,802	237,653	178,851
Reconstructions	Straight-line/natural	1,682			

Selected investments [PLN '000]

Item [PLN '000]	1	2	3	4	5
	PTE 2015	Annex 2 do PTE 2015	Actual 2015	Actual [3/2]	Plan for 2016
Obtaining new licences*	49,972	44,969	1,755	3.9%	45,384
Machines and equipment maintenance	100,090	42,633	40,891	95.9%	62,655
Other development and replacement investments	99,878	72,504	58,807	81.1%	68,700
Purchase and installation of panel complexes	1,750	3,087	1,576	51.1%	0
New excavations and upgrades of existing ones	309,112	198,196	178,851	90.2%	254 978
<b>TOTAL CAPEX in LW BOGDANKA S.A.**</b>	<b>560,802</b>	<b>361,389</b>	<b>281,880</b>	<b>78.0%</b>	<b>431,717</b>

\*plan for 2016 includes the full value of a fee for the use of geological information, which is payable in ten annual instalments. Total value of the geological information is PLN 28 million.

\*\*sum of investment outlays does not include capitalised costs of external financing



### Investments planned for 2016

#### New licences

The Company is attempting to obtain mining licences for the K-6 and K-7 areas of the "Cyców" deposit. In addition, LW Bogdanka S.A. is trying to obtain geological information on the "Ostrów" deposit. Exploration has been planned in the "Orzechów" area.

#### Machine and equipment maintenance

Purchase and assembly of new machines and equipment – by the end of 2016 the Company should spend PLN 19,285,000 for purchase of machines and equipment, including assembly costs. The main items include: overhead diesel locomotive, powered air barrages, conveyor feeder set, belt conveyors, cooling devices and electromagnetic separator.

Purchase of finished goods – planned cost of purchase of finished goods is PLN 13,553,000. The main items include: transport equipment (hoists, hydraulic mobile unit, tool boxes, overhead rail passenger units, etc.), pumps and hydraulic units, electrical equipment (transformer stations, motors, blasting equipment), other finished equipment (fans, bolting machines, welding machines, plasma cutters, tools categorized as fixed assets, purchase of computer and network hardware together with software, other).

Upgrades and repairs of machines and equipment – planned expenditures for upgrades and repairs of machines and equipment amount to PLN 29,817,000. The main items include: wall linings, diesel locomotives, overhead locomotives and roadheading machines. Repairs in 2016 will cover successive wall linings and carriages.



### DEVELOPMENT INVESTMENTS

#### New and upgraded excavations

Plans assume the construction of new excavations, mainly hate roads, wall cross-headings and the remaining technological and access excavations to enable mining operations in seams 385/2 ,391 and 389. Reconstructions of mining excavations will also be conducted.



### OPERATIONAL INVESTMENTS

#### Other development and replacement investments

Central air conditioning of the Bogdanka Field – underground works will be continued.

Enlargement of the mining waste neutralization facility in Bogdanka – building permit will be obtained, trees will be cut down on the site and the construction and assembly works will be started for Stage I Part II to increase storage capacity.

Other operational investments: the enlargement of the power grid and the upgrade of the switching station and the 110/6 kV substation will be continued.



### OTHER INVESTMENTS



### Licences

Any mining activity that involves commercial extraction of hard coal must be carried on in accordance with the provisions of the Geological and Mining Law.

In September 2014, LW Bogdanka S.A.'s application for a mining licence with respect to areas K-6 and K-7 was rejected. Other entity holds an exploration licence for this area.

The appeal filed was also rejected.

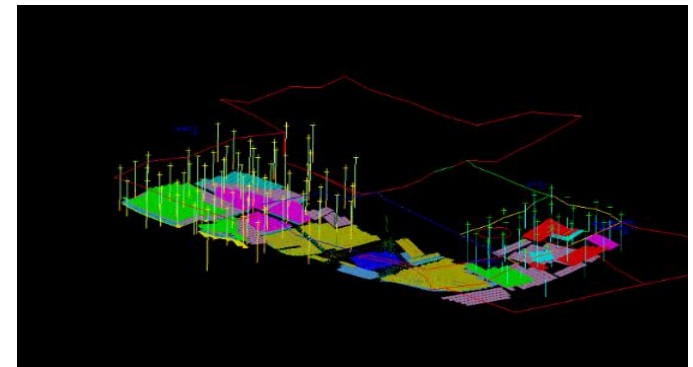
On 12 December 2014, the Company filed a complaint against the decision not to grant it the licence with the Provincial Administrative Court in Warsaw. The case is pending.

More information can be found on p. 47 – administrative proceedings.

Deposit	Licence No.	Issued on	Expires on
Bogdanka	5/2009	6 April 2009	31 December 2031
K-3	3/2014	17 June 2014	17 July 2046

Deposit	Licence No.	Issued on	Expires on
Orzechów	29/2014/p	14 October 2014	14 November 2018
Ostrów	25/2014/3	30 June 2014	30 July 2020

Permission/permit	Issued by	Issued by	Issued on	Expires on
Water permit for the special use of water, including:				
a) dewatering of the LW Bogdanka S.A. mine in Bogdanka, in quantities	ŚiR.III.6811/91/07	Lublin Province Governor	31 December 2007	31 December 2017
b) discharge of any unused mining waste water from the mine water reservoir via a drainage ditch into the RE "Żelazny" ditch, which is a tributary of the Świnka River.				
Integrated permit for the Construction Ceramics Plant facility and the landfill. The portion of the permit that concerns the landfill is no longer valid (it has been replaced by other permissions).	PZ 17/2006	Lublin Province Governor	29 December 2006	28 December 2016
Permission for the execution of mining construction works related to the expansion of mining waste dump.	L.dz.5/512/1/93/AG	District Mining Office in Lublin	30 March 1993	-
Permit authorising the building plans and specifications for the expansion of mining waste treatment facility in Bogdanka.	L.dz.LUB/02/35/56/11/12/MS	District Mining Office in Lublin	7 luty 2012 r.	-





### Trade agreements

The Company has no information about significant agreements concluded in 2015 between the shareholders. All agreements significant for the business of LW Bogdanka S.A. concluded in 2015 and after the balance-sheet date are described below.



Current Report	Business Partner	Agreement Date	Description
2/2015 25 March 2015	Enea Wytwarzanie sp. z o.o.	4 March 2010	Conclusion of an annex to the Annual Agreement. The Annex specifies coal supply prices for 2015 effective from 1 January 2015 until 31 December 2015, and concerns basic coal supplies in 2015, in accordance with the Long-Term Agreement.
24/2015 21 August 2015			Termination of the Long-Term Agreement for the Supply of Thermal Coal. The Agreement will terminate on 1 January 2018 due to failure to establish a price for the following calendar year (2016) by way of negotiation.
8/2016 3 March 2016			Signing of a settlement in the form of an Annual Agreement. The Annual Agreement specifies the terms and conditions of supplies in 2016 – quantitative volumes and prices related to the supplies of the Company's coal to the power plant of Enea Wytwarzanie sp. z o.o. in Kozenice.
18/2015 22 June 2015	PGNiG Termika S.A.	23 April 2012	The Annex concerns supplies in 2015.
25/2015 31 August 2015			The Annex concerns the extension of the term of the Agreement until 31 December 2016 (previously 31 December 2015) and the terms and conditions of supplies in 2016.
48/2015 25 November 2015	Zakłady Azotowe Puławy S.A.	8 January 2009	The Annex extends the term of the Agreement until the end of 2019 (previously the Agreement was in effect until the end of 2017) and sets out the new terms and conditions of thermal coal supplies during the term (prices and volumes).
50/2015 7 December 2015	Elektrownia Połaniec S.A. - Grupa GDF Suez Energia Polska (currently ENGIE Energia Polska S.A.)	12 July 2012	The Annex sets out the terms and conditions of supplies between 2015 and 2016 (prices and volumes).
52/2015 22 December 2015	EDF Paliwa sp. z o.o.	19 July 2011	Termination of the Long-Term Agreement for the Sale of Thermal Coal concluded on 19 July 2011 due to failure to establish supply prices for 2016 by way of negotiation and within time limits specified in the Agreement. As a result of the Buyer giving notice, the Agreement will terminate on 31 December 2016.
53/2015 22 December 2015	Energa Elektrownie Ostrołęka S.A.	14 December 2010	As a result of the Annex, the term of the Agreement has been extended until the end of 2016 and the terms and conditions of supplies in 2016 have been specified.
54/2015 23 December 2015	Polenergia Elektrownia Północ sp. z o.o.	20 December 2011	As a result of the Annex, the parties have changed the ultimate date for the Buyer to obtain debt financing for the purposes of constructing Units I and II of the Power Plant to 31 December 2018 (previously the ultimate date of financial closing was 31 December 2015).



### Information on financial instruments, bonds

#### Information on derivative financial instruments

As at 31 December 2015, the Company did not hold any open financial instruments.

#### Bonds

As at 31 December 2015, the Company had two Bond Issue Program Agreements. The first agreement of 3 September 2013 on the Bond Issue Program up to the amount of PLN 300 million with Bank Polska Kasa Opieki S.A.

The total value of all bonds issued under the agreement stands at PLN 300 million.

Maturity dates of the bonds are as follows:

- PLN 75 million - 30 March 2018
- PLN 75 million - 30 June 2018
- PLN 75 million - 30 September 2018
- PLN 75 million - 30 December 2018

The second agreement of 30 June 2014 on the Bond Issue Program up to the amount of PLN 600 million with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego.

The total value of all bonds issued under the agreement stands at PLN 400 million.

As provided for in the above mentioned agreement, the bonds will be issued in two tranches, Tranche 1 and Tranche 2, each up to the amount of PLN 300 million.

Tranche 1 has already been issued, while Tranche 2 will be issued no later than on 30 June 2016. The term of the program began on the day of signing the Agreement and ends for Tranche 1 on 31 December 2019, and for Tranche 2 on 31 December 2020.

In line with the Bond Issue Program, the Company may issue further series of bonds within a given tranche in order to roll over the previous issue of that tranche during the term of the Program. Therefore, in order to roll over the issue of bonds series LWB01A300615 and LWB02A300615, on 30 June 2015, the Company issued a total of 300 registered bonds series LWB01B300616 as Tranche 1 with a nominal value of PLN 1 million (one million zlotys) each, and a total of 100 registered bonds series LWB02B300616 as Tranche 2 with a nominal value of PLN 1 million (one million zlotys) each, which were acquired by the Guarantors. The total nominal value of bonds acquired by the Guarantors amounts to PLN 400 million.

Redemption date for bonds series LWB01B300616 and bonds series LWB02B300616 is scheduled for 30 June 2016.

In line with the Program, the Company has a right to issue further series of bonds within a given tranche in order to roll over the previous issue of that tranche, which justifies the long-term nature of the Program.

Bonds of PLN 200 million remain to be issued.

#### Use of proceeds from bond issue

In accordance with the Bond Issue Programme Agreements, the purpose of issue means refinancing of the Issuer's existing debt, financing the Issuer's day-to-day operations and investment needs (with the proviso that it does not constitute an issue purpose within the meaning of the Bonds Act).

The proceeds from the bond issue were used in compliance with the purpose of the issue. Investment projects carried out with the use of these proceeds are described on pages 16 and 17 of this Report.

#### Assessment of the possibilities of executing investment plans

A financing structure of property investment expenses will remain compliant with the adopted Strategy, i.e. the financing will be obtained from equity and debt (bonds). As at the date of this Report, LW Bogdanka S.A. sees no threat as to the possibility of acquiring additional debt financing, but points out to the risk that the costs of its acquisition and servicing may be higher than those currently incurred.

The loan (revolving overdraft credit facility) together with issued bonds (totalling PLN 700,092,000), disclosed in the Company's statement of financial position as at 31 December 2015, accounted for 33.2% of its equity and 19.5% of the balance-sheet total.

#### Lease and rental agreements in 2015.

Total revenue generated by LW Bogdanka S.A. in 2015 from lease and rental agreements concerning land, premises, plant, machinery, etc. amounted to PLN 8,564,760 net.

Agreement date	Agreement value [PLN million]	Value of bonds acquired [PLN million]	Remaining value of bonds to be acquired [PLN million]	Remaining value to be repaid [PLN million]
23 Sep. 2013	300	300	0	300
30 Jun. 2014	600	400	200	400



Information on loans

In 2015 the Company had one active loan agreement.

Start date	End date	Lender	Amount of loan [PLN '000]	Interest rate	Debt (loans) as at 31 December 2015 [PLN '000]	Repayment period
22 May 2014	22 May 2016	mBank S.A.	150,000	WIBOR 1M + margin	0	Overdraft

Information on loans granted

In 2015 the Company did not contract or grant any loans or terminate any agreements concerning loans.

Information on sureties and guarantees provided and received

In 2015 the Company did not grant (or receive) any sureties.

Guarantees granted by LW Bogdanka S.A.

In 2015 LW Bogdanka S.A. did not provide any guarantees.

Guarantees received by LW Bogdanka S.A.



Security receipt date	Security expiry date	Security provider	Agreement objective	Form of security	Amount of security
20 September 2012	30 September 2021	Bank PKO BP S.A.	to secure liabilities in connection with the payment of a fee for the use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits	bank guarantee	up to PLN 19,000,000
6 June 2013	30 September 2021	Bank PKO BP S.A.	to secure liabilities in connection with the payment of a fee for the use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits	bank guarantee	up to PLN 1,500,000
25 July 2013	23 January 2015	Bank PKO BP S.A.	to secure performance of an agreement with Caterpillar Global Mining Europe GmbH for the supply a factory-new wall ploughing system	bank guarantee	up to EUR 37,428,000
13 June 2014	29 October 2015	Bank PEKAO S.A.	to secure a portion of the price to the benefit of Caterpillar Global Mining Europe GmbH for the supply a factory-new wall ploughing system	bank guarantee	up to EUR 27,825,000
27 October 2015	31 January 2018	Bank PEKAO S.A.	to secure performance of an agreement with UTA Polska sp. z o.o.	bank guarantee	up to PLN 50,000



### Transactions with related entities

In 2015 the Company and its subsidiaries did not conclude transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis.

The following table presents main agreements in effect in 2015 entered into between LW Bogdanka S.A. and its Subsidiaries.

Agreements between LW Bogdanka S.A. and Łęczyńska Energetyka sp. z o.o.	Agreements between LW Bogdanka S.A. and RG Bogdanka sp. z o.o.	Agreements between LW Bogdanka S.A. and MR Bogdanka sp. z o.o.	Agreements between LW Bogdanka S.A. and EKOTRANS Bogdanka sp. z o.o.
<ul style="list-style-type: none"><li>• heat energy supplies</li><li>• water supplies and sewage disposal, maintenance services and other</li><li>• sale of thermal coal and electrical energy</li><li>• lease, rental and lending for use</li><li>• heating of inlet air on shaft 2.2</li><li>• service and maintenance supervision</li><li>• dendrological study</li><li>• reconstruction of premises in Stefanów</li><li>• provision of investor supervision for the construction of the Water Treatment Station in Bogdanka</li><li>• completion of central air-conditioning in the Bogdanka field</li></ul>	<ul style="list-style-type: none"><li>• reconstruction of a section of the eastern bypass</li><li>• reconstruction of a section of access heading 1 on level 960 in the Bogdanka field</li><li>• reconstruction of a passenger station in the Bogdanka field</li><li>• performance of works and provision of services in LW Bogdanka S.A. mine</li><li>• providing explosion works</li><li>• lease, rental and lending for use</li><li>• auxiliary works, haulage services</li></ul>	<ul style="list-style-type: none"><li>• delivery of elements of steel structures of adventitious equipment</li><li>• delivery of rolling stock units</li><li>• provision of services in the mechanical departments of machine operation underground</li><li>• performance of works at the LW Bogdanka S.A. mine</li><li>• supply of energy to the workshop-storage building</li><li>• repairs of machines and equipment, and their subassemblies</li><li>• delivery of casing pipes and connectors</li><li>• delivery of shaft 1.2 lining</li><li>• performance of fitting and welding works</li><li>• delivery of elements of machines, equipment and steel structures</li><li>• provision of repair and construction services</li><li>• repairs of transport units</li><li>• contracts for delivery of dwangs and spare parts</li><li>• lease, rental, and lending for use</li></ul>	<ul style="list-style-type: none"><li>• disposal of non-dangerous waste (waste rock)</li><li>• lease, rental and lending for use</li><li>• car sale</li></ul>

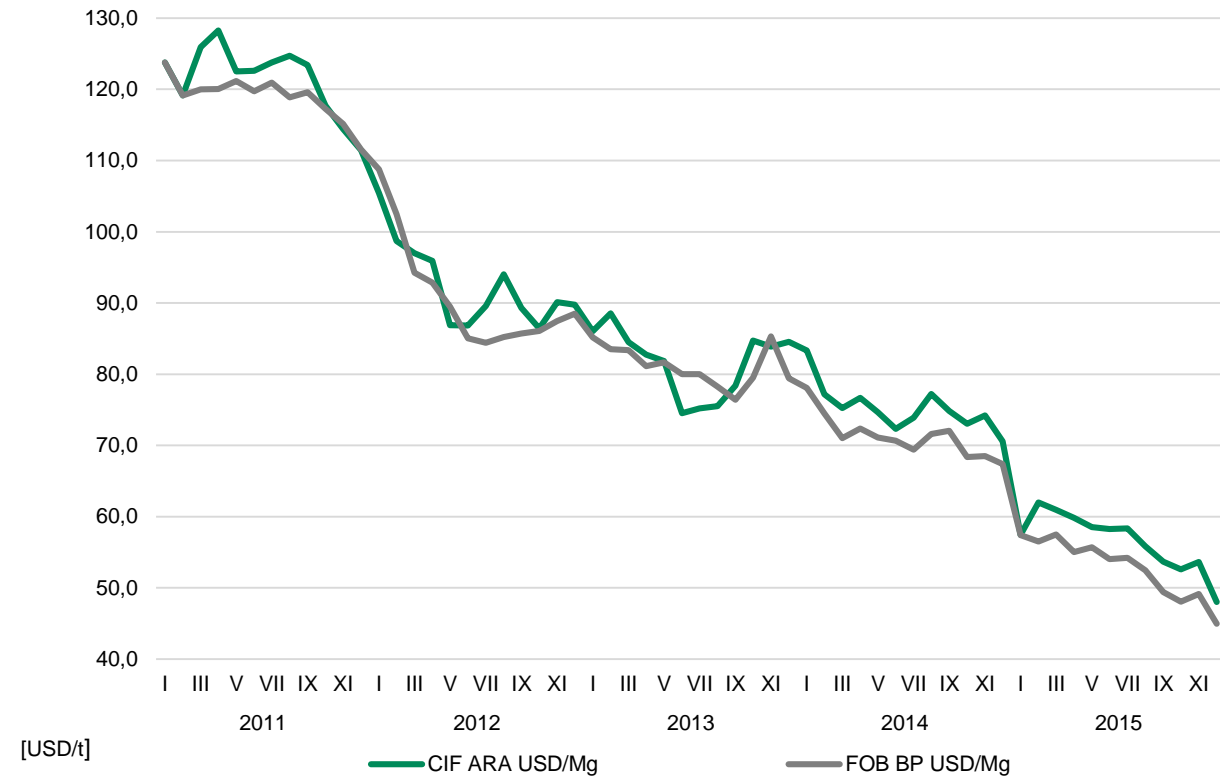
In 2015, LW Bogdanka S.A. entered into a power purchase agreement with Enea S.A., which became the Company's Parent as a consequence of acquiring a majority of shares in the Company. For more information about agreements with the Enea Group and companies controlled by the State Treasury, which is the majority shareholder of Enea S.A., see Note 36 of the Financial Statements of LW Bogdanka S.A. for 2015.





**Coal price decline in international market between January 2011 and December 2015**

- The average annual coal price (CIF ARA) was about USD 57 in 2015
- It plummeted by 61% between January 2011 and December 2015
- As at the end of 2015, the coal stock in ARA ports was about 5.9 million tonnes, i.e. increase by about 700,000 tonnes year on year
- Share of coal in power generation in the UK dropped from 28.2% in 2014 to 20.5% in 2015
- In 2015 China imported about 30% less coal than in 2014
- In 2016 it is expected that China's imports will continue the downward trend – by about 10%
- Coal production in China declined by 3.8% year on year
- By 2020 China wants to cut coal production by 500 million tonnes, i.e. 13.6%

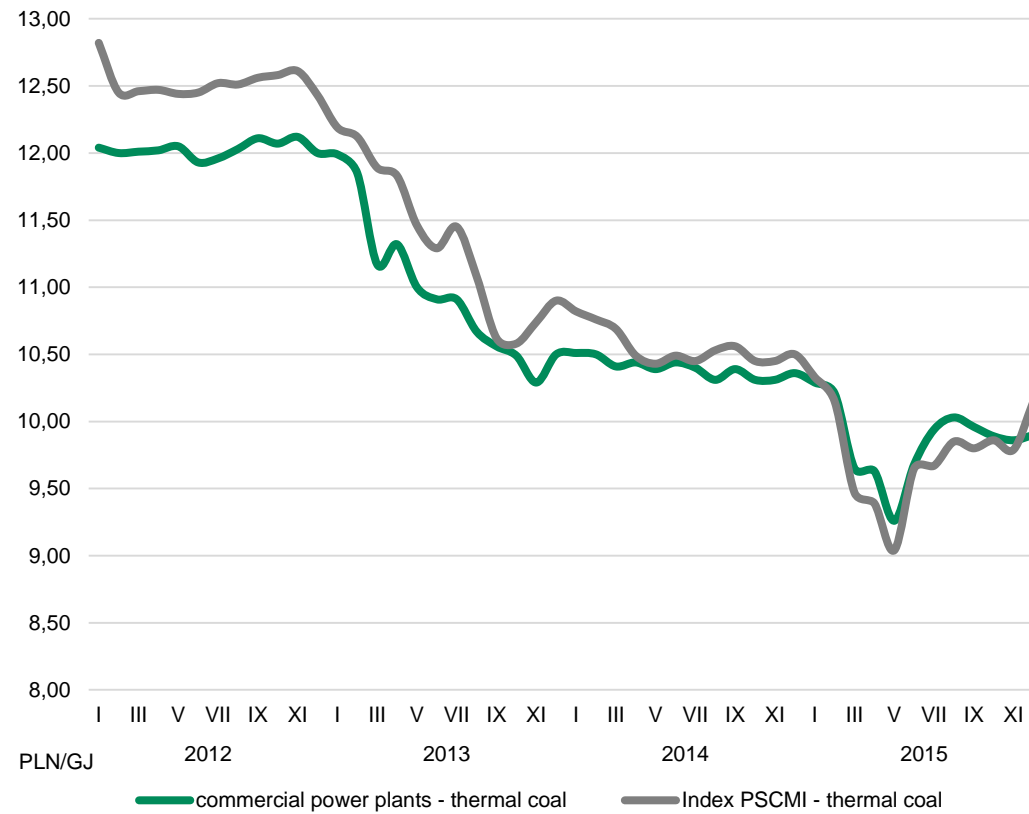






**Decline in fine thermal coal prices and PSCMI index in Poland’s market between January 2012 and December 2015**

- In 2015 the average annual price of fine thermal coal for commercial power plants was PLN 9.85 per GJ
- The price trend shows a 5.3% decline year on year
- Average heating value of fine coal for commercial power plants is about 21.4 GJ
- Price of fine coal for commercial power plants declined by 18% between January 2012 and December 2015
- In 2015 the average price based on the PSCMI index was about PLN 9.76 per GJ
- Decline was about 7.5% versus the 2014 average price



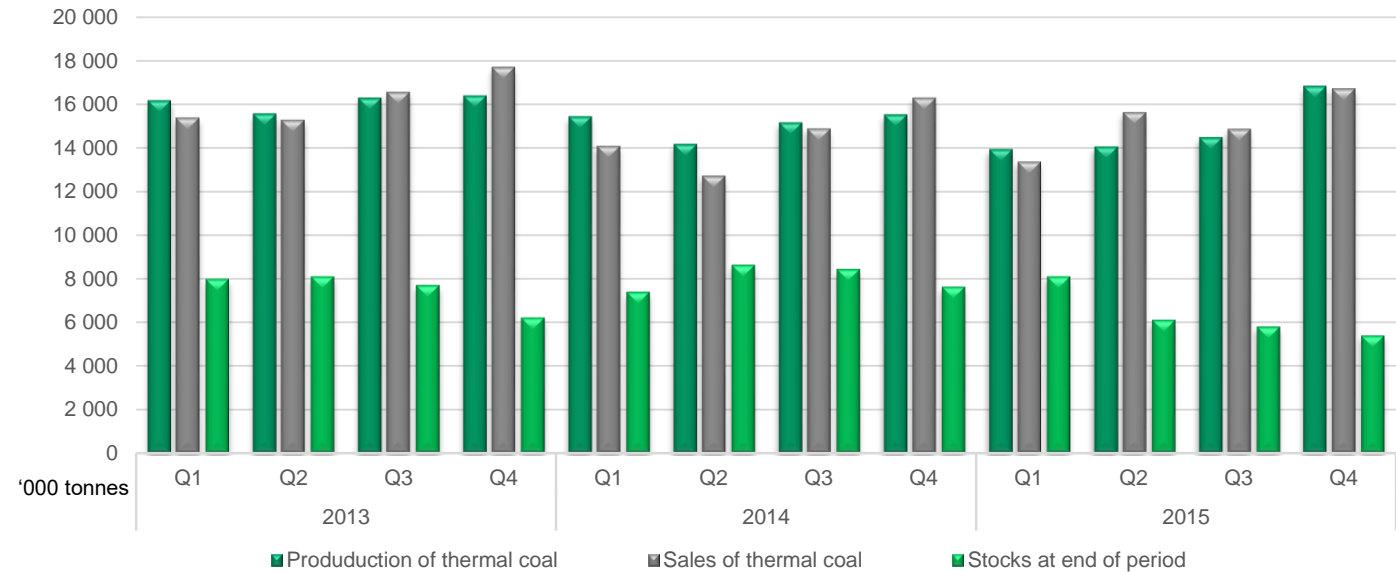


**Production, sales and stocks of thermal coal at the end of 2015 in the domestic market**

Currently there are 30 hard coal mines in Poland:

- Kompania Węglowa:
  - Sośnica
  - Halemba-Wirek
  - Pokój
  - Bielszowice
  - Bolesław Śmiały
  - Piast
  - Ziemowit
  - Chwałowice
  - Jankowice
  - Marcel
  - Rydułtowy-Anna
- Jastrzębska Spółka Węglowa:
  - Knurów-Szczygłowiec
  - Borynia-Zofiówka-Jastrzębie
  - Krupiński
  - Pniówek
  - Budryk
- Katowicki Holding Węglowy:
  - Mysłowice-Wesoła
  - Wieczorek
  - Wujek
  - Staszic
- Spółka Restrukturyzacji Kopalń:
  - Makoszowy
  - Centrum
  - Murcki
  - Kazimierz
- Tauron Wydobycie:
  - Brzeszcze
  - Janina
  - Sobieski
- Lubelski Węgiel Bogdanka S.A.
- PG Silesia
- Siltech
- Ekoplus

**Production, sales and stocks of thermal coal**



**Situation in Poland:**

- In 2015 the production of thermal coal amounted to about 59.2 million tonnes
- Production was lower by about 1.7% in comparison to 2014
- Sales in 2015 amounted to about 60.6 million tonnes, including about 34.2 million tonnes of thermal fine coal acquired by the Commercial Energy Sector
- Sales of thermal coal increased by about 4.5% in comparison to 2014
- The level of coal stocks at the end of 2015 totalled 5.4 million tonnes
- Stocks fell by about 29.4% in comparison to the level as at December 2014



**Production, sales and stock – thermal coal – as at the end of 2015 in Poland’s market**

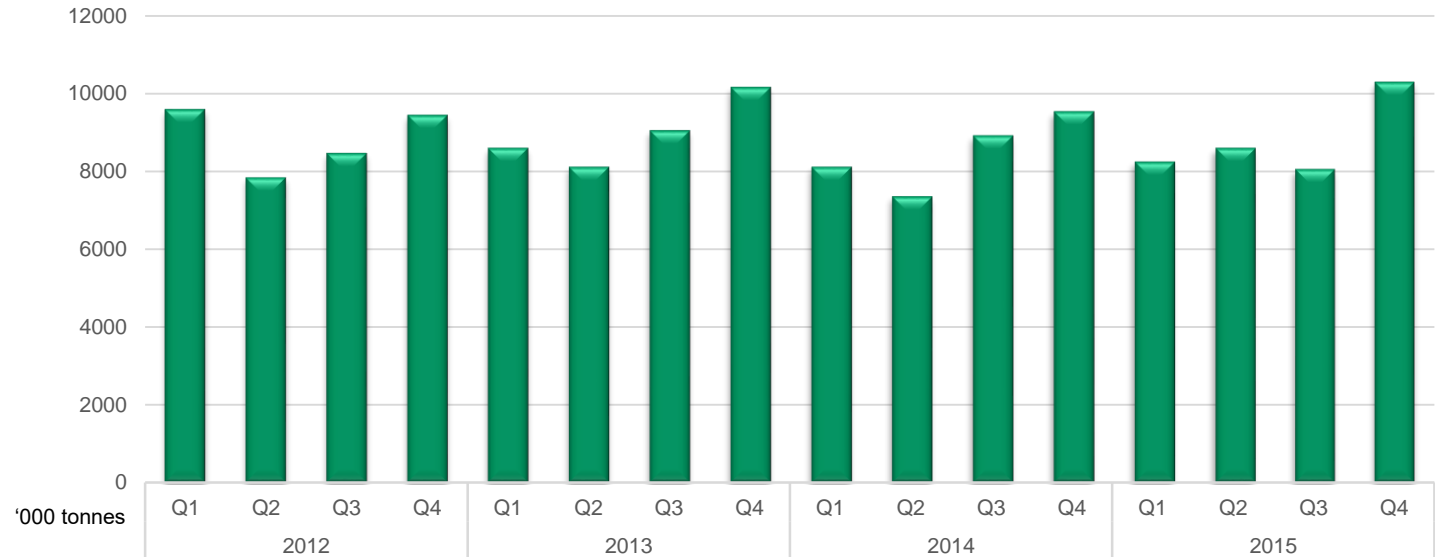
Commercial power plants are the main recipients of thermal coal in Poland. They bought about 34.2 million tonnes of thermal fine coal. The largest buyers are:

- Tauron
- EDF
- PGE
- Enea
- PGNiG
- ENGIE

In January-December 2015, about 60.6 million tonnes of thermal coal were sold in Poland, of which 53.8 million tonnes were delivered to Poland’s market, including 47 million tonnes of thermal fine coal.

About 7 million tonnes of coal were exported, mainly thermal fine coal.

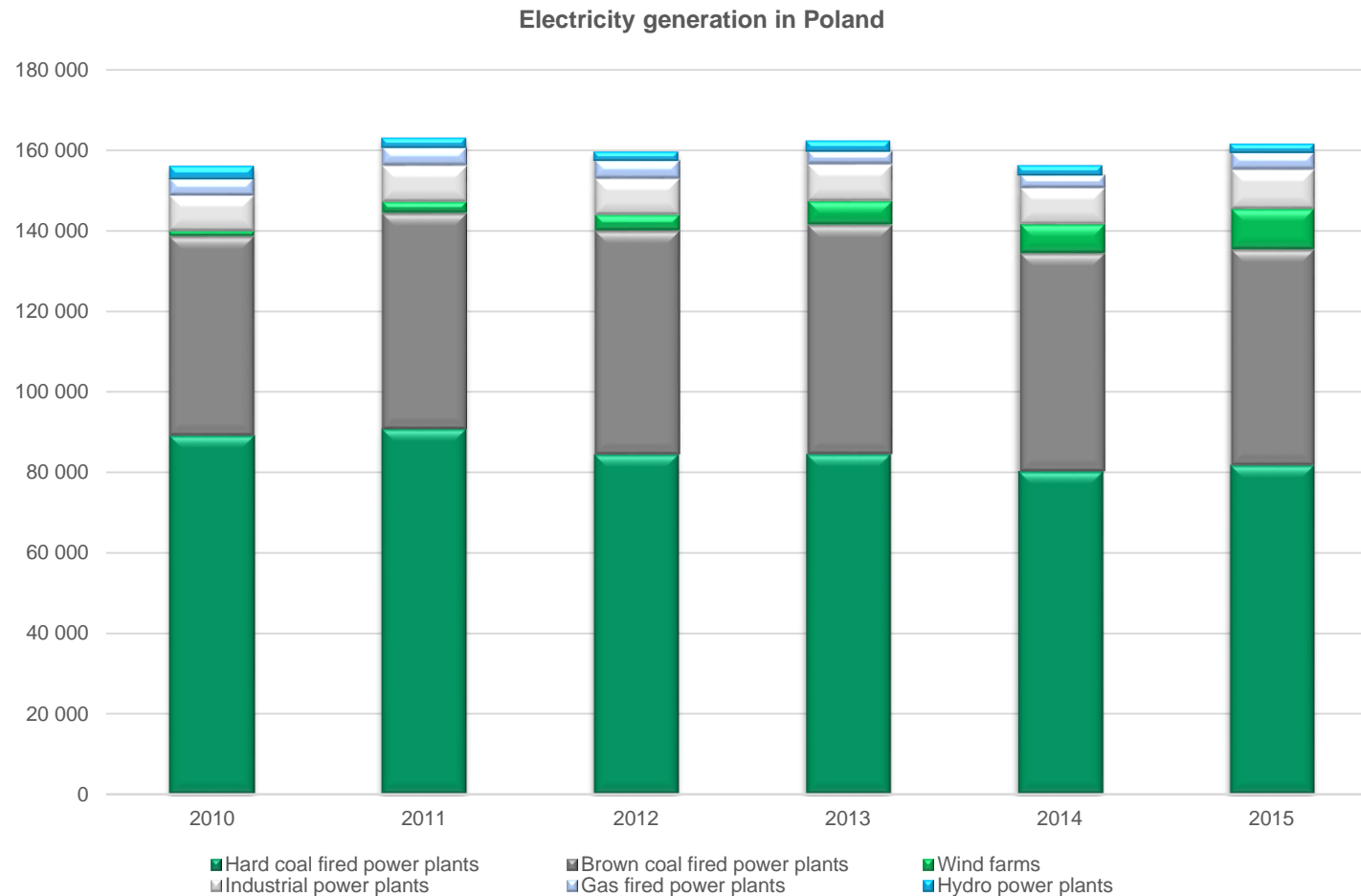
**Sales of thermal coal to commercial power plants**





**Electricity generation in Poland**

- Total electricity output in 2015 – 162,000 GWhj
- In 2015 domestic electricity consumption was higher by 3,200 GWh versus 2014
- Hard coal was used to generate 82,000 GWh, i.e. nearly 51% of total electricity output in Poland
- In 2015 hard coal produced 2% more electricity than in 2014
- As compared to 2010, the share of hard coal in electricity generation was lower by about 8%
- In 2015 wind farm electricity production rose by nearly 40% year on year
- As compared to 2010, wind farm electricity production increased by about 669%



## Description of risks, threats and factors which, in the assessment of LW Bogdanka S.A., will affect the achieved results

### Risk management

The key objectives of the management of LW Bogdanka S.A.'s risks are to:

- ensure security of the Company's operation,
- ensure effectiveness of decisions focused on the maximisation of profit at an acceptable level of risk.

Systems in place:

- Integrated System of Enterprise Risk Management (ERM),
- IT (Risk Manager) to support the enterprise risk management system.

Principal rules, procedures and documents serving as a basis for the risk management system:

- LW Bogdanka Corporate Risk Management Policy,
- LW Bogdanka Corporate Risk Management Model – ERM procedures,
- LW Bogdanka Risk Register,
- LW Bogdanka Risk Map,
- List of strategic risks of LW Bogdanka,
- Programs of strategic risk mitigating measures at the Company.

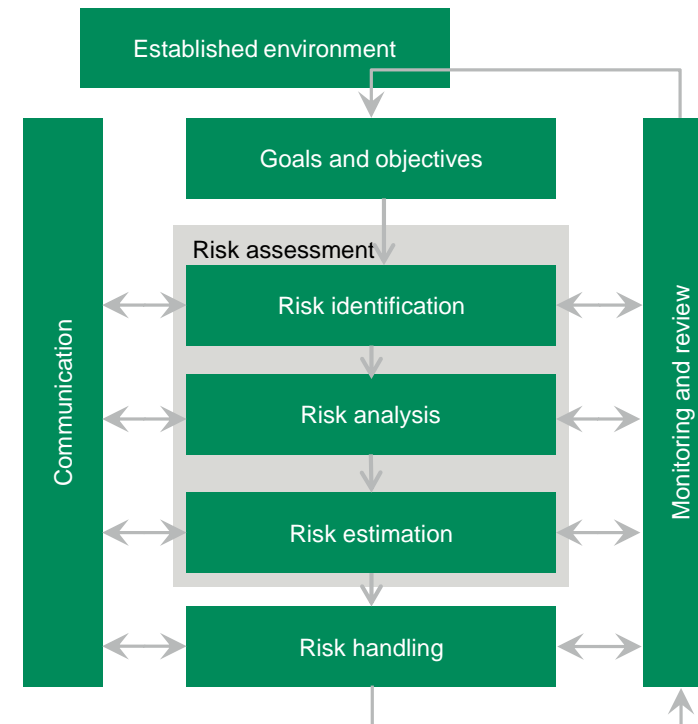
An Enterprise Risk Management Committee appointed by the Management Board plays an important role in the Company's risk management system. The Committee has its own specific competences at every stage of ERM. Its functions involve accepting and issuing opinions on identified risks and measures aimed at reducing those risks.

The Company provides information and reports on the outcomes of the ERM implementation and its development to the Supervisory Board and the Audit Committee.

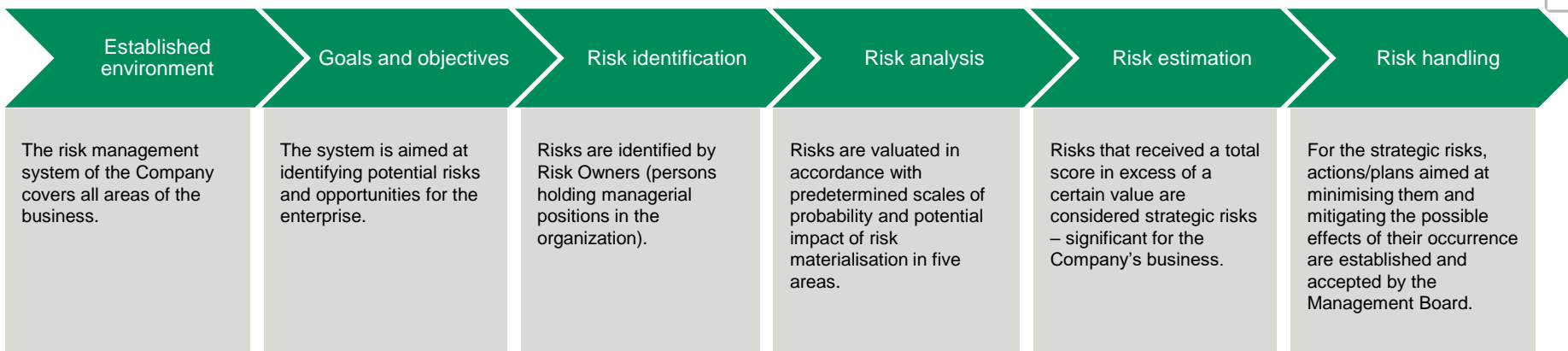
In subsequent periods, the system will be further adapted to the needs of the Company with a view to increasing its role and effectiveness, based on the existing experience and outcome of the system.

The risk management system involves the participation of:

- the Supervisory Board,
- the Management Board,
- the Enterprise Risk Management Committee,
- the Audit Committee,
- managers of organisational units – risk owners.



### Risk management process





## Main risks to the Company by category

RISK FACTORS	
<b>BUSINESS ENVIRONMENT AND MARKET</b>	<ul style="list-style-type: none"> <li>• Risk associated with the social and economic situation in Poland and the world</li> <li>• Risk associated with the economic policy of the State in relation to the hard coal mining sector</li> <li>• Risk associated with the levels of prices for raw materials for power production in Poland and the world</li> <li>• Risk associated with the imposition of coal excise tax</li> <li>• Interest rate risk</li> <li>• Risk associated with changes in exchange rates</li> <li>• Risk associated with the impact of current macroeconomic situation on debt financing availability</li> <li>• Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events</li> <li>• Risk of restrictive EU climate policy also with respect to the CO2 emissions</li> <li>• Risk of a decrease in demand for hard coal from the Polish power industry</li> </ul>
<b>OPERATIONAL</b>	<ul style="list-style-type: none"> <li>• Risk associated with the launch of extraction of new deposits at LW Bogdanka S.A.</li> <li>• Technical and technological risk</li> <li>• Risk associated with high costs of technologies applied by the Company</li> <li>• Risk of IT systems malfunctioning</li> <li>• Key customer risk</li> <li>• Risk associated with competition by other thermal coal producers and the relatively low quality of the coal produced by the Company</li> <li>• Customer insolvency risk</li> <li>• Risk associated with the strong position of the trade unions in the Company</li> <li>• Risk associated with retaining and attracting human resources for LW Bogdanka S.A.</li> <li>• Key supplier risk</li> <li>• Risk of unfavourable/inappropriate contractual terms being concluded</li> <li>• Risk of price fixing by the suppliers</li> </ul>
<b>FINANCIAL</b>	<ul style="list-style-type: none"> <li>• Liquidity risk</li> <li>• Insurance risk</li> </ul>
<b>ENVIRONMENTAL PROTECTION</b>	<ul style="list-style-type: none"> <li>• Risk associated with reclamation and mining damage</li> <li>• Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment</li> <li>• Risk associated with management of waste generated after extension of the mining area</li> <li>• Investment risks associated with protected areas</li> </ul>
<b>LEGAL</b>	<ul style="list-style-type: none"> <li>• Risk of change to tax laws</li> <li>• Risk of real estate tax on mining excavations of LW Bogdanka S.A.</li> <li>• Risk associated with expenses for creating certain mining pits and their classification for the purposes of corporate income tax</li> <li>• Risk of a change in the law and its interpretation and application</li> <li>• Risk of violating the stock exchange disclosure requirements</li> </ul>



## Risk associated with the Company's social, economic and market environment

### Risk associated with the social and economic situation in Poland and the world

Factors that influence the financial results of LW Bogdanka:

- the rate of increase in domestic and global GDP, including the rate of increase in industrial production
- the demand for electricity and heat energy
- prices of raw materials on global markets
- the level of inflation
- the rate of unemployment
- changes in exchange rates

Countermeasures: monitoring all factors, adapting the activities to the market situation and business environment, planning future actions, controlling costs, entering into long-term agreements.



### Risk associated with the economic policy of the State in relation to the hard coal mining sector

Plans of the Ministry of Economy and the Ministry of State Treasury concerning enterprises operating in the hard coal mining and power sector have an influence on the market position of LW Bogdanka S.A.

A restructuring plan for Kompania Węglowa S.A. as adopted by the government entails great uncertainty as to the volume of thermal coal production in Poland and, consequently, the possibilities of positioning that coal on the market. Depending on the choice of a restructuring scenario to be executed, this will affect LW Bogdanka S.A.'s market standing.

Countermeasures: monitoring the process of implementing the restructuring plan for Kompania Węglowa S.A., and reacting to possible illegal state aid in accordance with available legal measures.



### Risk associated with the levels of prices of raw materials for power production in Poland and the world

The levels of prices of raw materials for power production are mainly affected by:

- the prices of thermal coal and
- raw materials alternative to thermal coal (crude oil, natural gas, renewable sources)

on global markets, and therefore on the domestic market. This is of key significance for the activities conducted by LW Bogdanka S.A. Moreover, increases in coal stocks faced by both global and domestic producers due to a decrease in demand for coal, and a decrease in coal and crude oil prices on the international market may exert great influence on the change in the demand for fuel, and consequently, the change in prices of coal and energy on the global and domestic market, which may affect the financial results of the Company.

Countermeasures: monitoring the domestic and foreign markets, controlling prices, entering into long-term trade agreements with main recipients of thermal coal.



### Risk associated with the imposition of coal excise tax

The provisions of the Excise Tax Act came into force on 2 January 2012. Under said provisions coal products sold for heating purposes are effectively taxed with excise duty. The Act provides for an extensive range of excise tax exemptions which cover, among other things, electrical power generation. However, the act has also resulted in a greater number of formal requirements as regards documenting the sale of excise tax-exempt coal.

Nevertheless, the risk to the Company is limited, because LW Bogdanka S.A. sells most of its coal volumes for electrical power generation purposes.

Countermeasures: providing excise tax training to the employees, co-operating with reputable tax advisors, requesting tax authorities to issue individual tax rulings, actively participating in the legislation process, introducing provisions to trade contracts that enable the transfer of a potential excise tax burden onto the buyer in case excise tax is imposed on the transaction.



### Interest rate risk

LW Bogdanka is a party to financial agreements based on variable interest rates. The risk refers to loans already contracted, new loans to be contracted and existing loans to be refinanced. An increase in interest rates may bring about a growth of finance costs of the Company, and consequently, have an adverse effect

on the Company's financial results (alternatively, a possible decrease in interest rates may cause the Company's finance costs to fall, and therefore, bring a positive effect on the financial results).

The risk may potentially increase if the share of debt financing continues to grow, since the market of fine coal becomes increasingly difficult (higher bank margins).

Countermeasures: monitoring and control of debt.



### Risk associated with changes in exchange rates

The risk relates to purchases of specialist equipment which is provided only by foreign manufacturers. It may also occur when coal is exported abroad.

Countermeasures: entering into forward transactions.



### Risk associated with the impact of current macroeconomic situation on debt financing availability

In connection with loan agreements in effect and the Bond Issue Program, the Company is able to meet its debt financing needs without entering into new agreements. More information can be found on page 21 of the Report.

The Company's interest-bearing debt (loan and the issued bonds) of the total value of PLN 700,092,000 as at 31 December 2015 accounted for 33.2% of its equity and 19.5% of the balance-sheet total.

Countermeasures: loan agreements concluded and the Bond Issue Program.





Risk associated with the Company's social, economic and market environment

Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events

The operating activities of LW Bogdanka S.A. are exposed to risks and dangers resulting from the specific nature of conducting activities in the mining industry.

These include:

- events associated with the environment (e.g. industrial and technological malfunctions)
• extraordinary events, e.g. geotechnical phenomena, mining disasters, fires or flooding of excavations with mine waters
• mining damage

The consequences may include:

- temporary suspension of operating activities, losses relating to property or financial assets
• loss of employees
• potential of the Company being held legally liable

Countermeasures:

- strict compliance with occupation health and safety rules
• ongoing monitoring of risk on particular work positions
• taking precautions

The following factors are also of importance:

- use of advanced and reliable mining machines and equipment, which reduces the risk of industrial malfunctions
• no geological disruptions and the fact that the mining seams are relatively regularly laid out
• relatively low costs of repairing mining damage resulting from the low urbanisation of the area in which the mine extracts hard coal
• high qualifications of the personnel



Risk of restrictive EU climate policy also with respect to the CO2 emissions

The European Commission requires limiting the CO2 emissions on the level of EU member states by 20% until 2020 in accordance with the so called "Europe 2020 strategy", as well as reducing greenhouse gas emissions by 20%, raising the share of energy consumption produced from renewable sources to 20%, and improving the energy efficiency by 20% in accordance with the so called "20-20-20" targets.

In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. These limitations may cause significant difficulties with competitiveness and investments in new production capacity. In consequence, the difficulties of the energy sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by LW Bogdanka S.A., and in consequence may have a negative impact on its financial results.

Countermeasures:

- active involvement in consultations conducted by the Polish mining sector in order to minimise the above risk for domestic coal producers,
• monitoring any amendments to the Energy Law or other acts, and assessing their potential impact on the Company's operations.



Risk of a decrease in demand for hard coal from the Polish power industry

Another mild winter coupled with a decline in demand for energy led to an increase in the volume of coal remaining on coal mounds at commercial power plants. This may translate into a drop in the buyers' demand for coal in the nearest future. The downward trend affecting the demand for power fine coal may continue until 2018, which is certain to impact LW Bogdanka's coal pricing policy.

Imported coal poses some risk to the demand on national coal. Countermeasures: actions aimed at further long-term securing of supplies of the Company's coal for commercial power production relating to existing and prospective power units within the area of the Company's operations.







Risks directly associated with the Company's operations

Risk associated with the launch of extraction of new deposits at LW Bogdanka S.A.

A material aspect of the operations conducted by the Company is the necessity to secure future extraction possibilities by providing access to new coal resources.

Restriction of the mining capacity may bring the following consequences:

- shorten the life of the mining plant and/or
• reduce the assumed level of extraction of hard coal, and therefore
• decrease future financial results of LW Bogdanka S.A.

At the moment, the Company is undertaking activities with the aim of obtaining new licences in order to double its resources and secure a raw material base for extraction until 2050.

More information can be found on page 19 of the Report.

Countermeasures: further steps to obtain mining licences for the K-6 and K-7 areas (filing a lawsuit with administration court), as well as exploration licences for the Ostrów and Orzechów areas.



Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions).

In this group of risks, there is also a risk of unexpected, usually local, deterioration of the quality of the deposit.

Countermeasures:

- extraction in the longwall system from four simultaneously active mining faces and two reequipped mining faces,
• availability of the infrastructure – the second mining shaft in Stefanów,
• system of underground coal storage reservoirs,
• raw coal reservoirs on the surface,
• use of advanced mining equipment and machines,
• research and development work aimed at increasing work productivity and safety.



Risk associated with high costs of technologies applied by the Company

The technology of thermal coal extraction involves the use of highly specialised machines and equipment. As a result of the Company's investments related to the Stefanów Field extension, it will be necessary to make further investments in new specialised mining machines.

Due to global concentration of producers of such machines and equipment, there is a risk of unexpected increase in prices of specialised machines and equipment. This could have impact on the increase of investment expenditures. There is also a risk of difficulties in accessing unique spare parts to ensure the operating continuity of the machines and equipment. 2015 saw the commencement of mining from seam 391 which is located about 100 m below seam 382.

As the depth increases, it becomes more difficult to maintain the excavations (rock mass pressures grows), the natural temperature of rock goes up, and some risks increase. This may result in an increase in coal mining costs.

Countermeasures: controlling costs and investment expenditures, use of highly-specialised machines and equipment, high work culture (attention to equipment).



Risk of IT systems malfunctioning

Potential partial or complete loss of data due to malfunction of computer systems may adversely affect ongoing operations, and in consequence influence future financial results.

Countermeasures:

- implementation of the "Policy for Safety of Information in the IT Systems of Lubelski Węgiel Bogdanka S.A.",
• works are being conducted to assess a possible consolidation and standardisation of IT solutions within the Enea Group.



Key customer risk

Vast majority of the thermal coal produced by LW Bogdanka S.A. is sold to a relatively small group of large contracting parties

operating on the domestic market. Therefore, there is a risk that the reduction or termination of cooperation with a key customer of the Company could have an adverse effect on financial results.

Deterioration of the financial/economic situation of any of the main customers of the Company may also involve some degree of risk.

Countermeasures:

- analysing the situation and forecasts on the coal supplies and energy market,
• co-operating with renowned institutions dealing with energy sources market analysis,
• co-operating with first-rate law firms,
• managing the risk of long-term contracts,
• looking for new customers who would diversify alternative sale options

The risk of losing key customers may be exacerbated depending on the restructuring scenario for Silesian mines adopted by the Polish government.



Risk associated with competition by other thermal coal producers and the relatively low quality of the coal produced by the Company

The Company is exposed to price competition from other producers of thermal coal:

- from Poland (e.g. mines of Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.)
• from eastern markets (including Russia, Ukraine and Kazakhstan)
• other global producers delivered by sea (from the ports of Amsterdam, Rotterdam and Antwerp).

Another risk factor is connected with the less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content). The specific parameters of the coal produced by the Company provide it with a competitive advantage when supplying coal to commercial power producers.

Countermeasures: product tailored to the needs of a buyer, looking for new buyers, reducing a unit cost of production.





Risks directly associated with the Company's operations

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW Bogdanka S.A. payable by its customers and the surplus of Company's receivables in comparison to liabilities. As of the end of 2015, trade debtors and other current accounts receivable of the Company accounted for 6.7% of the carrying value and 12.7% of the Company's revenue. The share of trade debtors in trade debtors and other total current accounts receivable accounted for 84.1%.

Countermeasures:

- monitoring customers' arrears associated with making payments for the products sold,
• analysing the credit risk for the main customers individually, or by the respective classes of assets,
• transactions solely with customers with confirmed creditworthiness.



Risk associated with the strong position of the trade unions

Trade unions hold a significant position and play an important role in determining staff and payroll policy. They frequently force renegotiations of payroll policy through protest actions. As at the day of submitting this Report, four trade union organisations operate at the Company, associating 70.51% of the employees. This creates a risk that the costs of remuneration may increase in the future in connection with negotiated wage agreements, and in consequence adversely affect financial results. Furthermore, possible protests and/or strikes organised by the trade unions could affect the Company's operating activities.

Countermeasures: monitoring the activities of trade unions and engaging in dialogue and negotiations regarding staff and payroll actions.



Risk associated with retaining and attracting human resources for LW Bogdanka S.A.

Due to ongoing works on amendments to the Collective Bargaining Agreement which will consider the change of work organisation and remuneration, there is a risk that a larger number of experienced employees entitled to retirement benefits will leave the Company. These are especially valuable employees because of their knowledge and experience. Their sudden departure in a short period of time could disrupt the generational continuity which is being rebuilt, and in turn, disrupt the mild gradual staff turnover. Countermeasure: building generational continuity.



Key supplier risk

The specific nature of operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore, there is a risk of problems in finding proper suppliers, as well as a risk of suppliers failing to meet their obligations under concluded agreements. This also applies to providers of specialised mining services, because due to a limited number of such providers on the Polish market, the Company may become dependent upon these entities.

Countermeasures: assessing the risk of threats connected with contract performance at the stage of signing agreements with suppliers, and looking for options of establishing cooperation with other suppliers. What is more, in order to secure the performance of higher risk contracts, it is required that a performance bond is made.



Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements (in particular those relating to the purchase of specialist equipment and technology), the Company is exposed to a risk of an agreement being concluded on unfavourable terms.

Countermeasures:

- rigorous legal and substantive supervision of the process of concluding agreements resulting from tender procedures according to the procedures of public tenders and others;

- training in the logistics of concluding contracts and market analysis, negotiations and trading, in particular at the international level.

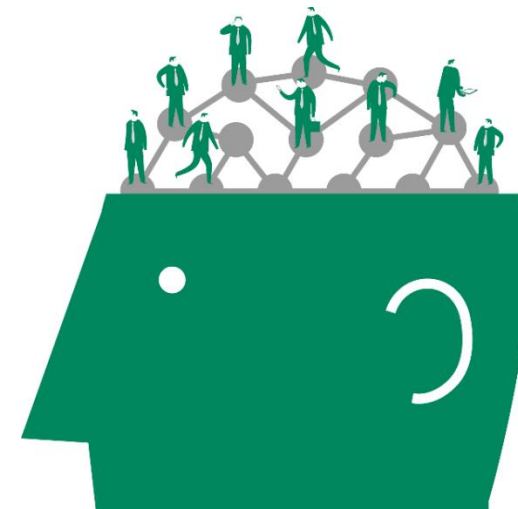


Risk of price fixing by the suppliers

The requirement to use highly specialised products and services, as well as legal aspects to be met in order for such products and services to be deemed proper, carry a risk of price fixing. Therefore, there is a potential risk of fixing commercial terms that can be offered to LW Bogdanka S.A. by a group of suppliers.

Countermeasures:

- permanent market monitoring and acquiring new suppliers,
• periodic analysis of contract prices and researching new market trends,
• searching for replacement products.





Financial risks and risks associated with environmental protection

Liquidity risk

Important factors in the assessment of insolvency risk are:

- the level of operating cash flows generated by the company
- the amount of cash
- liquidity ratios

The Company's cash at hand as at 31 December 2015 amounted to PLN 240,011,000. The current liquidity ratio for the Company amounted to 1.99, and quick liquidity ratio equalled 1.66. In 2015, net flows from operating activities generated by LW Bogdanka S.A. were higher by 2.1% in comparison to 2014. Investment expenditures were significantly reduced as a result of completing a programme for the development of production capacity in the Stefanów Field. Consequently, cash flows from investing activities went down by nearly 38.3% in relation to 2014.

Countermeasures: long- and short-term analyses and projections to help determine cash needs. Such activities make it possible to plan inflows and outflows in advance, and to determine a cash level and method of financing future expenses that are optimal from the point of view of economic balance. Furthermore, in order to optimise cash management, the Company obtained debt financing in the form of an overdraft credit facility and a bond issue program.



Insurance risk

The Company is exposed to insurance risk both within standard scope applicable to all entities conducting business activity, and within the scope typical for the mining sector.

In 2015, an insurance review was carried out at the Company as a result of that cooperation, which in turn lead to updating the existing insurance programme. The updated programme is currently being implemented. Its key element is to renew the Company's insurance coverage related to underground property. Countermeasures: the Company holds insurance policies covering the risk of loss and damage to underground property, third party liability insurance against damage caused in connection with business activity or property in the Company's possession, above-

ground property insurance and all-risks insurance of rail vehicles. Moreover, the Company holds an insurance policy similar to Business Interruption which to a limited extent concerns a portion of fixed costs incurred in case of damage.



Risk associated with reclamation and mining damage

LW Bogdanka S.A. is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future □ it seems that the requirements in this respect will be more strict.

Countermeasures: repair works, protecting buildings against the results of mining damage, reimbursing the costs incurred by investors in connection with adjusting new buildings under construction on the mining land to the current conditions, gradual hydrographic works and prophylactic protection on the facilities within the boundaries of inflows.



Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment

The operations of LW Bogdanka S.A. have a significant impact on the environment. Therefore, the Company must hold specific permits and observe standards of using the environment detailed in applicable laws (including BAT requirements - Best Available Techniques).

In particular with respect to the following:

- emissions of substances and noise to the air;
- water and waste management;
- management of the generated solid waste;
- the use of natural resources.

Countermeasures: the Company monitors legal regulations on an ongoing basis, and adjusts its operations accordingly within the prescribed time limits.



Risk associated with management of waste generated after extension of the mining area

In connection with the extension of the mining area and increased extraction of coal, the amount of generated extraction waste significantly increased. It is estimated that the storage capacity of the waste yard is sufficient for up to 3 years of storing. On the basis of a building permit, the Company has commenced works connected with increasing the height of the existing yard (to 250 MASL), and undertook measures aimed at acquiring adjacent areas in order to further extend the facility. Failure to implement this investment will involve the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste.

Countermeasures: works connected with increasing the height of the existing mining waste utilisation facility. Such course of action will make it possible, without undue haste, to continue the work on acquiring new land to execute the next phases of extension of the yard and handle any formal and legal issues connected with this project. The Company has also purchased a plot of land with the area of approx. 9.0 ha, adjacent to the mining waste treatment facility.



Investment risks associated with protected areas

The mine is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the mining land and three others in close vicinity of the mining land). All planned investment activities must be analysed from the perspective of their potential negative impact on protected areas.

There is a risk that in the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter. These investment restrictions may require higher investment costs, and therefore, may affect the financial result.

Countermeasures: ongoing monitoring, adjusting business activities to requirements and obligations.





Risk associated with proceedings and legal environment

Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken by the Company.

Countermeasures:

- monitoring any amendments to tax laws
• training courses for employees so as to ensure that employees are as competent as possible in this area
• comparing any new issues with the latest tax rulings and relevant case law
• using the services of consulting companies
• following a Transfer Pricing Policy which lays down the fundamental conditions and principles for pricing the transactions concluded within the Group.



Risk of real estate tax on mining excavations of LW Bogdanka S.A.

In accordance with the Company's strategy, the value of underground excavations and the infrastructure located in these excavations have not been included in real property tax returns for tax assessment purposes.

In 2015 fiscal proceedings were pending against the Company in order to determine the amount of real property tax due for the period between 2004 and 2014, instigated by the Heads of Puchaczów, Cyców and Ludwin Communes.

Countermeasures:

- monitoring any amendments to tax laws,
• training courses for employees so as to ensure that employees are as competent as possible in this area,
• comparing any new issues with the latest tax rulings and relevant case law,



- using the services of consulting companies.

The issue is discussed in more detail in Note 23 of the Financial Statements.



Risk associated with expenses for creating certain mining pits and their classification for the purposes of corporate income tax

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. They are recorded in accounting books as non-current assets or directly as operating costs and the point when such costs are incurred. Pits comprising a fixed underground mine infrastructure are classified as non-current assets. Exploitation and movement pits are classified as operating costs at the time when such costs are incurred - cost pits. Some of the cost pits were performed earlier than 1 year ago. In the light of the current tax laws, one cannot exclude a possibility of other qualification of this type of costs for the purposes of corporate persons income tax than the one performed by the Company, which could potentially mean decreasing the cost base for tax purposes in past and current settlements of the income tax and a potential payment of additional amounts of the tax.

Countermeasures:

Mining companies have made an attempt to clarify this issue - they suggest changes and clarification of the classification rules concerning this aspect of Non-Current Assets Classification.



Risk of a change in the law and its interpretation and application

The provisions of law in Poland are frequently changed. Interpretations of the law and the way in which it is applied are also changed. Particularly frequent are interpretational changes in tax laws. There is no consistency in the practice of tax authorities or in case law relating to taxation. If tax authorities adopt an interpretation of tax law which differs from that adopted by the



Company or if the Mining Law introduces new requirements, it could lead to deterioration of its financial situation and as a result negatively affect the Company's bottom line and development prospects.

Countermeasures: using the services of legal advisors and consulting companies, and seeking opinions of various bodies specialising in a given subject matter. Where applicable, the Company also files for binding interpretations of law. Despite these measures it is not possible to eliminate risk entirely, however the Management Board believe such risk to be largely limited.



Risk of violating the stock exchange disclosure requirements

Since LW Bogdanka S.A. is listed on the Warsaw Stock Exchange, the Company is subject to provisions which impose a number of requirements. For failure to perform or undue performance of the requirements set forth above a very high fine may be imposed.

Countermeasures: strict compliance with the obligations preceded by the introduction of internal procedures for the circulation of stock-exchange information at LW Bogdanka S.A., and permanent monitoring of the Company's operations with respect to disclosure requirements.





## Working conditions and technical risks

### Working conditions

Due to the nature of the Company's operations staff employed at the mine, especially underground, are exposed to a number of natural and technical risks. Work in underground conditions also exposes the staff to harmful and nuisance work environment factors at work stations.

#### Natural risks

The following natural risks occur in the mine:

- methane risk



- water risk



- coal dust explosion risk



- fire risk



Strict compliance with occupational health and safety regulations, monitoring, and preventive measures ensure that those risks are entirely under control.

None of the above mentioned natural risks occurred in 2015.

### Technical risks

In 2015, on average 524 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present. This represents an increase of nearly 10% in comparison with 2014, and is due to an increase in the amount of work performed, which in turn, translated into a greater number of machines and work stations where mechanical risks were present. Particularly dangerous machinery includes but is not limited to the machinery listed in Annex IV to Directive 98/37/EC implemented by virtue of the Regulation of the Minister of Economy, Labour and Social Policy of 10 April 2003 on the

essential requirements relating to machinery and safety components (Dz. U. [Official Journal] No. 91, item 858).

Particularly dangerous machinery includes:

- locomotives
- hydraulic-powered roof supports
- presses
- etc.

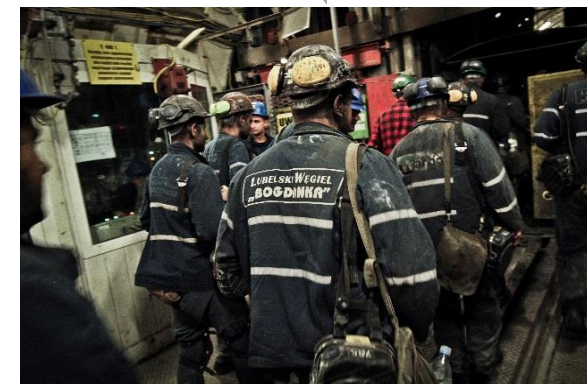
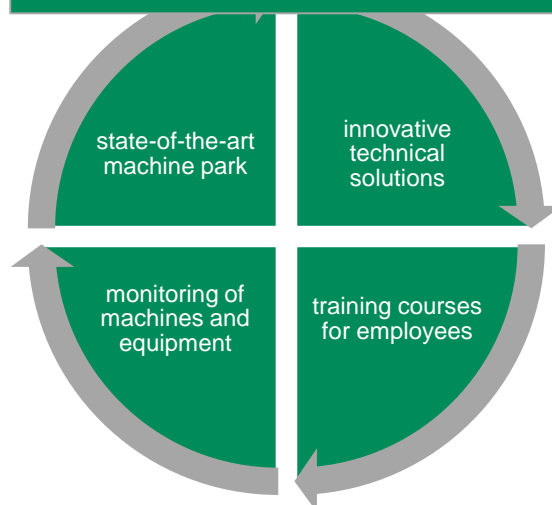
Reduction of technical risks and their impact on employees is affected through:

- replacing the machine park with more advanced machines which ensure greater safety for machine operators and employees working in the vicinity of the machines
- implementing innovative technical solutions, machines and small mechanisation equipment with improved safety norms other than those cited in the Regulation
- ongoing monitoring of the market in terms of new safe machines and equipment
- internal and external training courses in operating small mechanisation and machines, facilities and installations requiring appropriate qualifications.



On average 524 employees daily are exposed to mechanical risks

### Measures undertaken to limit technical risks:





## Harmful and nuisance factors

### Harmful and nuisance factors

Measurements of harmful factors occurring at work stations at the Company are conducted:

- in accordance with the Regulation of the Minister of Health of 2 February 2011 on testing and measuring harmful factors at work environment (Dz. U. 2011.33.166)
- an internal procedure developed in that respect

The internal procedure covered the following measurements:

- hard coal dust, including the content of free crystalline silica
- audible noise
- general and local vibrations
- ionising radiation
- harmfulness of welding gases
- UV radiation
- microclimate

All employees working under harmful conditions are equipped with personal protective measures, which vary depending on risk category. Every employee is informed of the risks and trained with respect to appropriate usage of personal protective measures.

### Work accidents

In 2015, there were 81 accidents at LW Bogdanka S.A.: 3 major accidents and 78 minor accidents. This shows a slight decrease (of 1 accident) in comparison to 2014. The number of accidents and basic accident rates are presented in the table.

Number of employees working at work stations where maximum permissible levels and maximum permissible concentrations are exceeded

Year	Underground					Chemical agents	Other
	Dustiness	Noise	Vibrations	Microclimate			
2011	1,097	1,205	34	913	-	-	
2012	961	1,222	90	789	-	-	
2013	1,389	1,455	64	738	-	-	
2014	1,796	1,553	142	809	-	-	
2015	1,821	1,139	38	435	-	-	

Number of accidents and accident rates at the Company in 2011+2015

Year	2011	2012	2013	2014	2015
Number of accidents – total	93	103	87	82	81
including: fatal	-	-	-	-	-
including: causing serious injury	-	1	-	-	3
Frequency rate (per 1,000 employees)	22.81	23.05	18.85	16.73	17.18
Frequency rate (per 100,000 workdays)	11.03	11.19	9.19	8.11	8.19

Work accident costs at the Company in 2011+2015

Year	Number of accidents	including: accidents		benefits paid (in PLN '000)
		fatal	serious	
2011	93	-	-	332.3
2012	103	-	1	412.2
2013	87	-	-	268.7
2014	82	-	-	275.0 (refers to 60 injured)
2015	81	-	3	370.1 (refers to 73 injured)





### Location of the Company

The entire infrastructure of the mine and the "Puchaczów V" and "Stręczyn" mining areas are surrounded with protected land.

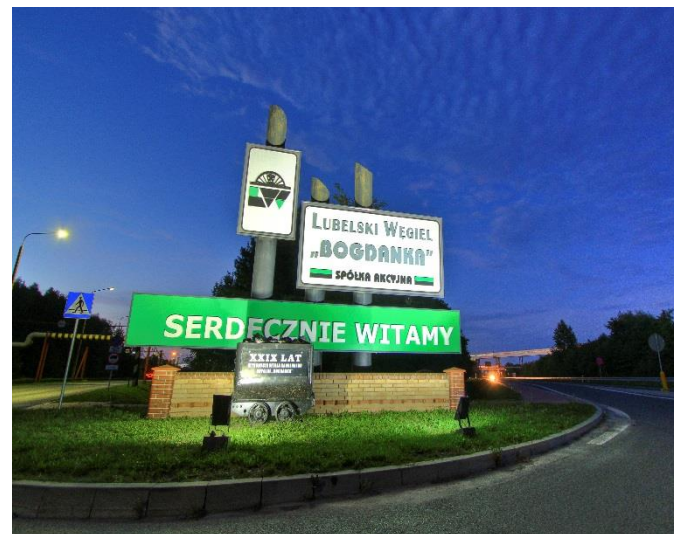
The immediate vicinity features:

- the Polesie National Park
- the Landscape Park
- the Łęczna Lake District

In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west.

The Polesie Protected Landscape Area is located in the north-east, while in the south-east there is the Chełm Protected Landscape Area.

The mine does not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-environmental actions, implementation of an Integrated Quality, Environmental and Health and Safety Management System, and obtaining a relevant certificate in accordance with PN EN ISO 14001, 9001 and 18001.



## NATURAL ENVIRONMENT

### Natural environment issues

#### Air protection

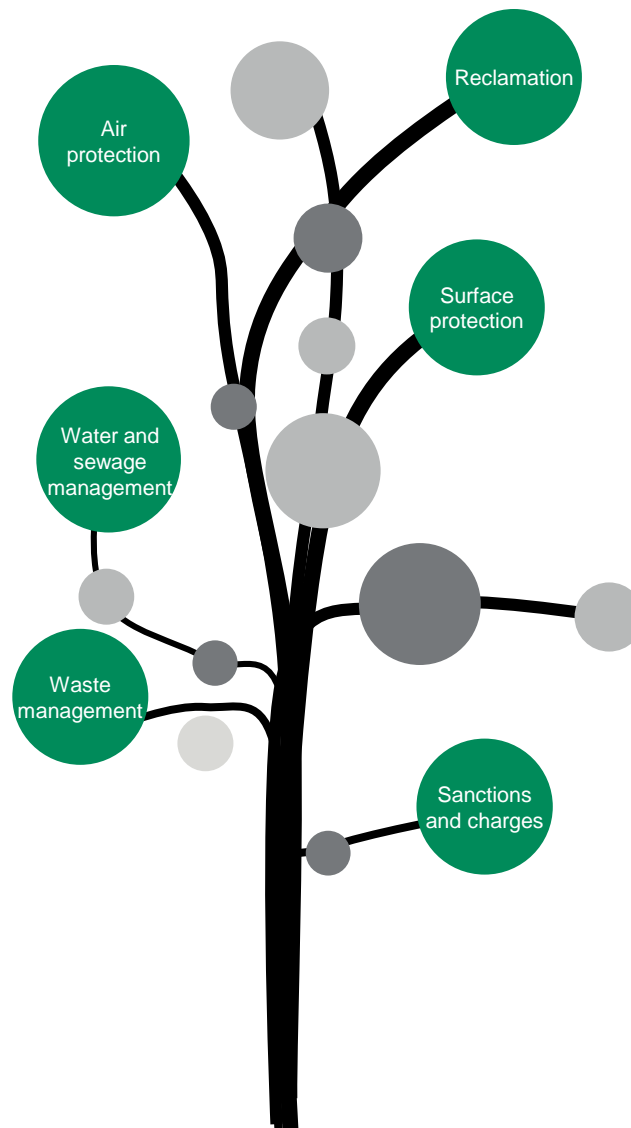
- LW Bogdanka S.A. does not have an organised emitter which emits dust and gas into the atmosphere.
- An unorganised emitter is the waste rock disposal area, which may be a source of dust on dry and windy days.

**Water and sewage management** mainly concerns mine water, and includes:

- rock mass drainage at working sites,
- controlled drainage of Jurassic layers,
- use of water for fire and process purposes,
- pumping water to the surface,
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczyńska Energetyka Sp. z o.o.),
- retention of mine water in surface tanks in order to reduce suspension,
- discharge of water from tanks through the Rów Żelazny ditch into the Świnka River in the amount of about 15,776 m<sup>3</sup>/day.
- the content of chlorides and sulphates in mine water is 968mg/dm<sup>3</sup>.

#### Waste management:

- In 2015, total mining waste amounted to 4,971,527 tonnes.
- Approximately 53% of waste was recovered and reused. Waste recovery, i.e. using waste to rehabilitate land, strengthen roads and yards, produce cement in the "Ożarów" Cement Plant and for other purposes, amounted to 2,649,322 tonnes.
- 97% of waste is used for the purpose of rehabilitation of degraded land. It involves restoration of the original lay of the land by filling abandoned sand pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation.
- Other post-mining waste (2,322,205 tonnes) is stored at the mining waste neutralization facility in Bogdanka. LW Bogdanka S.A. manages other post-industrial waste (scrap, waste wood, used oil, etc.) and contracts treatment of waste which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).



#### Reclamation

- In 2015, LW Bogdanka S.A. did not perform land rehabilitation works in post-industrial areas.
- Maintenance works are performed on an ongoing basis with respect to the greenery, a facility used as a mining waste dump, previously-remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

#### Surface protection

- The influence of mining works performed in 2015 on the surface – as to date – manifested itself mainly as an increase in the surface scope of the existing impact.
- In the area of the village of Bogdanka and Nadrybie Wieś maximum soil settlement remains at a level of 5.00 m in the central part of the settlement basin.
- Damage to buildings in 2015 – as to date – were primarily related to rural buildings. The reported damage to those buildings did not pose any threat to their users and were removed on an ongoing basis.
- The costs of removing damage caused by mining works performed in 2015 amounted to a total of approx. PLN 5.04 million.

#### Environmental protection sanctions and charges to which the Company is exposed

- Mining activity is associated with operating and environmental charges, and a number of costs connected with:
  - post-mining waste management,
  - post-industrial land rehabilitation,
  - environmental monitoring,
  - preparation of certified reports and documentation necessary for proper operation of the plant.
- The exploitation charge is paid every half a year to the accounts of communes where exploitation is conducted (60%) and towards the National Environmental Protection Fund (40%). The licence fee is in 40% the income of the National Environmental Protection Fund, and in 60% the income of the mining communes.
- LW Bogdanka S.A. complies with environmental standards, and did not incur any penalties in 2015 for violation of environmental rules laid down in the applicable laws.





**Workforce changes**

At the end of 2015, the Company was employing 4,555 persons compared to 4,930 at the end of 2014, which is a decrease by 7.6%.

Underground staff account for 72.3% of the personnel, and surface staff are 27.7%. Due to the specific nature of the mining industry, the Company employs mainly men – they were 94.7%, while women were 5.3%.

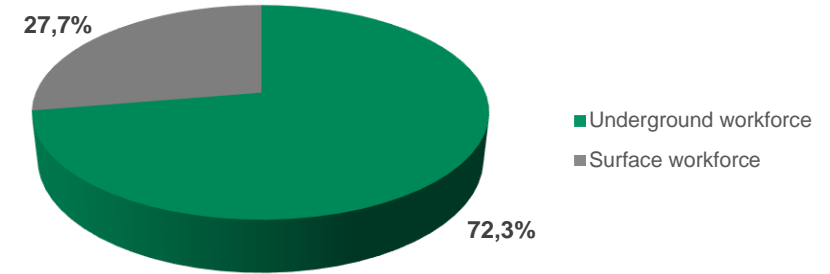
In terms of age of the employees, the dominant group are persons between 30 and 50 years old – 58.1%.

In terms of education, the largest group were persons with secondary education. Their share in total workforce at the end of December 2015 was 52.9%.

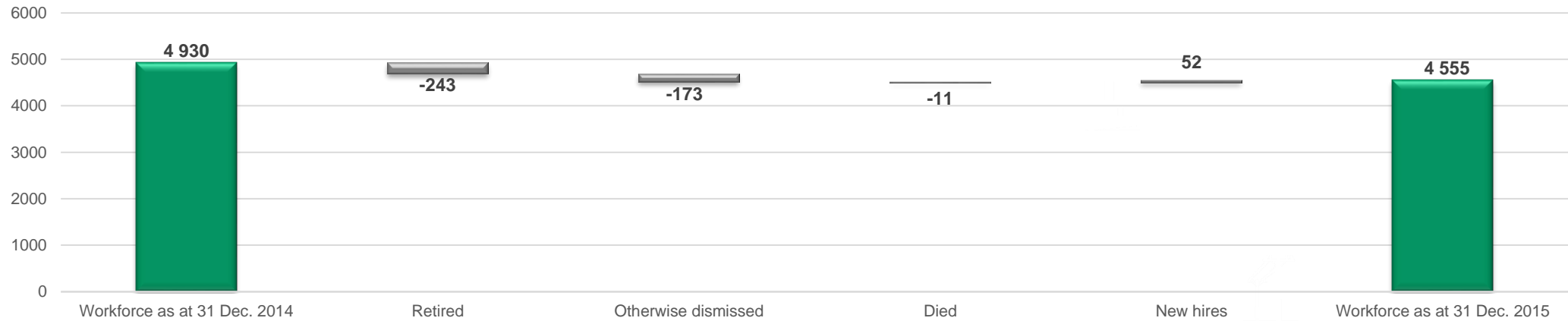
1,778 employees (39.0%) hired by the Company has more than 15 years of work service, which translates into great experience and high qualifications.

Detailed workforce information is presented in the diagrams below.

**Underground and surface workforce as at 31 December 2015**



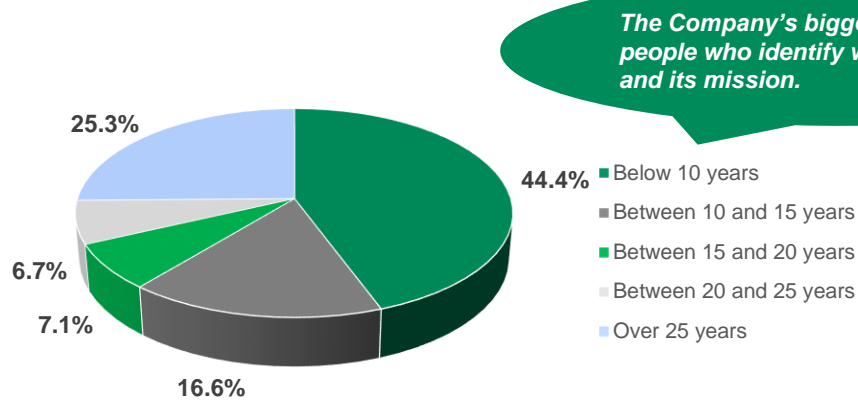
**Workforce changes [in persons]**





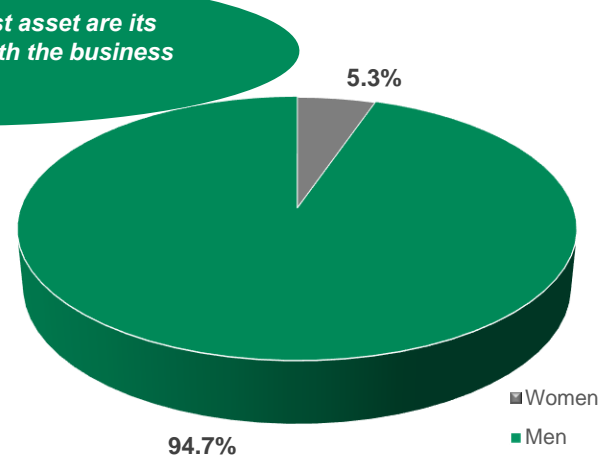
Workforce structure at the Company

Number of employees by length of service as at 31 December 2015



*The Company's biggest asset are its people who identify with the business and its mission.*

Workforce by sex as at 31 December 2015



HR policy implemented in 2015

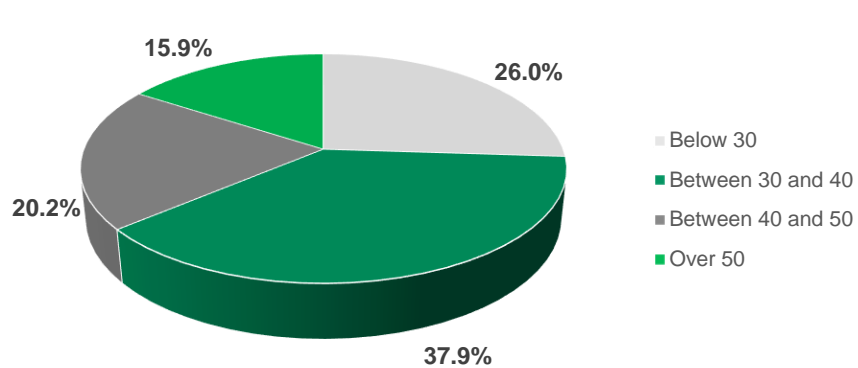
The Company's personnel policy is implemented with the aim of effective HR management by hiring, developing and retaining an optimal level of workforce to enable proper fulfilment of the Company's objectives.

In particular, it aims at selecting and shaping the employee's competencies in such a way as to prepare them as best as possible for effective implementation of the Company's goals and objectives, while having a sense of self-fulfilment and satisfaction from their work.

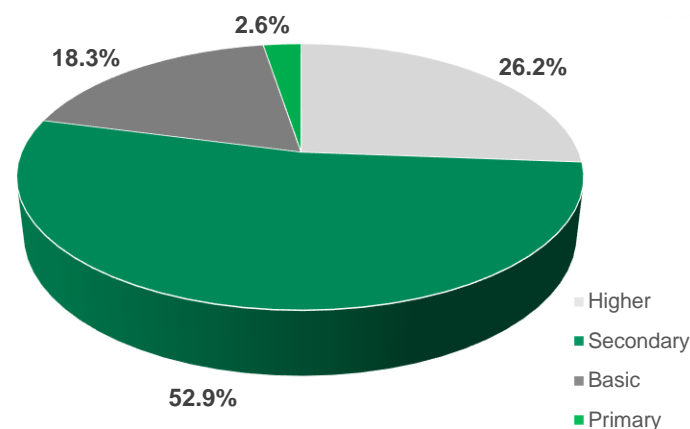
The occurrence of a generation gap is prevented by:

- collaboration with educational institutions, organisation of apprenticeships and internships,
- building the image of a desirable employer and acquiring the best candidates.

Workforce by age as at 31 December 2015



Workforce by education as at 31 December 2015



Procedure of increasing qualifications, training and development of human resources

All employees have equal access to training and opportunities to improve their qualifications. In 2015, the Company organised internal and external training. Employees took part, out of their own initiative and upon consent of their superior, in external training and conferences to expand their knowledge.



## Average monthly remuneration

Principles of remuneration in the Company in 2015 were regulated by the Collective Bargaining Agreement of 31 October 2001, concluded between the Management Board of the Company and trade organisations operating within the Company: Independent and Self-Governing Trade Union "Solidarność", Trade Union of Miners in Poland, Trade Union "Kadra" and Trade Union of Employees of Mechanical Coal Processing Plants "Przeróbka".

The Collective Bargaining Agreement specifies a package of benefits due within the employment relationships and principles for granting individual components of remuneration, including bonuses for effective work hours, e.g. for working overtime, bonuses for rescuers and others. The Collective Bargaining Agreement also applies to key management referred to in rule VI.4 of the Code of Best Practice.

The average monthly remuneration for individual employee groups was as follows:

[PLN]	2014	2015	Change
Total staff	7,374	7,211	-2.2%

The analysis of the average monthly remuneration is based on the average employment level at the Company (not taking into account the methodology of the Main Statistical Office which reduces employment by deducting employees who are on a sick leave, maternity leave, care leave, or rehabilitation allowance for more than 14 days (continuously).

In 2015, payroll was kept based on:

- fixed tables of basic remuneration rates (type of tasks performed - mainly in mining longwalls and mine faces caused an increase in the average basic remuneration by 1.68%),

- a bonus calculated based on:
  - a degree of completion of monthly production tasks,
  - sales of commercial coal,
  - the average sales price achieved,
  - and the level of implementation of the cost budget by the Company in individual periods;

Within the year:

- bonuses paid decreased by 7.9%,
- supplements for night work (2% in the structure of the average monthly remuneration) increased by more than 4%,
- supplements for performed work (supplements to rescue workers, for internal training) increased by about 1%.

The analysis of the average monthly remuneration in 2015 also shows the following:

- cash equivalent for coal allowance increased by more than 1%,
- remuneration for a period of sick leave paid from the Company's funds and the amount of long-service awards decreased by 8% (another year of downward trend).

Retirement benefits grew up by about 17.8% (this is a consequence of a greater number of retired employees, i.e. 221 in 2014 vs. 242 in 2015). An employment policy pursued in 2015 (incomparable to the previous year) brought about an increase of 5.68% in the amount of annual awards resulting from the Collective Bargaining Agreement.

The Company has implemented a personal cost reduction policy, and did not extend fixed-term employment contracts with employees whose performance was questioned. Employment contracts with 114 employees expired in 2015. Moreover, while implementing the cost reduction policy the Company draw on changes in the work organisation and was adapting the machine park to sale requirements.

The average monthly remuneration was lower by 2.2% in comparison to 2014 (97.8% per annum). The decrease was agreed upon with the community under an agreement of 4 August 2015.

The Company continued its works on a new version of the Collective Bargaining Agreement. Multi-option solutions concerning remuneration components and work-related allowances were developed. A negotiation team undertook measures aimed at raising awareness of the Company's employees and the community about the need to change collective bargaining relations at the time of recession in the entire industry and destabilisation in the hard coal market which affects the commercial power sector.





Company’s marketing activities in 2015

Types of promotional activities:

- advertising sponsorship, sports is understood as support of all sports activities conducted by the main beneficiary of the budget, i.e. Górnik Łęczna S.A., which manages tournaments of a football team that competes in Ekstraklasa (Polish premiere football league), and runs the Górnik Łęczna Sports Academy in order to accomplish its mission, which is to promote sports rivalry among young people. In exchange for the sponsorship, Górnik Łęczna S.A. provided LW Bogdanka S.A. with promotional and advertising services specified in an agreement.
- advertising sponsorship, other is understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. This promotion channel applies in particular to CSR activities.
- promotion – promotional mix for the Bogdanka corporate brand is understood as public relations, Corporate Social Responsibility and publicity activities correlated with a media campaign aimed at promoting the Company’s corporate image and products. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion]. These tasks are executed in-house by the Company’s marketing, PR and CSR units.

The rationale behind the marketing activities undertaken:

I Achieving marketing objectives, i.e.:

- Continued creation of company image as a leader of the mining industry on the Polish and European market. An increase in the value of the Company’s brand through a range of advertising services provided by sponsored entities. Obtaining high media coverage whose value in terms of advertising is higher than the funds engaged in sponsorship
- Confirming its credibility in the eyes of current and future contractors and investors

- Achieving the influence of the dynamic and modern image of sport on the image of the Company. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines
- Promotion of the image of the Company and its shareholders by sponsorship. Promotion of the Company products within the message directed to the target group, which is to be influenced by sponsoring
- Ensuring dynamics of the Company image in the capital market. Creating the image of the Company on the national and international arena in the context of its own plans of expansion and development, and consequently the increase in the value of the Company on the capital market
- Development of appropriate public relations for the Company in Poland and in the region. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness

II Achieving social aims, i.e.:

- Minimising high risk of conflicts in the Company between the employer and trade unions, maintaining social order in the Company. Mitigating possible social tensions and creating an atmosphere of friendly attitude towards the Company’s projects
- Maintaining good relations with employees, which translates into continued high performance of work provided by them
- Satisfying expectations of the local community in the region, which is one of the poorer regions of Poland
- Involvement of local youth into sport and social events of educational dimension, properly forming personalities of prospective future employees of the Company — in particular at the Górnik Łęczna Sports Academy
- Activating the community of the Lublin region into sport, social and cultural events
- Creating the image of a socially responsible company, caring about employees and their families

No.	Advertising budget (in PLN ‘000)	Execution
1	Promotion of the Bogdanka corporate brand	658
2	Advertising sponsorship, sports (sponsorship cooperation with Górnik Łęczna S.A.)	5,200
3	Advertising sponsorship, other	174
<b>TOTAL</b>		<b>6,032</b>





### Company's marketing activities in 2015

The common denominator for the above scopes, especially with respect to shaping the brand's corporate image, is the existing CSR Strategy.

Promotional activities for the Bogdanka corporate brand focused mainly on the brand image — these activities were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's advertising was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business (building the success dimension of the brand), as well as a reliable employer which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates [building the social dimension of the brand]. The fundamental PR operations conducted in 2015 concerned mainly the press media market. The objective of the PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies in connection with the difficulties suffered by the mining sector and the thermal coal market in 2015, as well as the Company's presence on the Warsaw Stock Exchange (to shape the attitude of the shareholders towards changes in the price of LW Bogdanka's shares, and to build the Company's goodwill in the context of decisions made by the shareholders).

Advertising at cultural and scientific events (for example sponsorship of a regularly-held Carnival of Magicians in Lublin) greatly contributed to the creation of a positive brand image in the community, as well as among researchers, decision- and opinion makers and emphasised the importance of LW Bogdanka S.A. for the Lublin region as one of the few large and expansive companies in that area.

The promotional activities mainly consisted in displaying the logo of the Bogdanka brand at events considered important for the region and the corporate brand from the point of view of advertising and target groups. Information about the range of products offered by the Company was actively distributed at cultural, educational and other events.

The advertising activities listed above had a significant impact on the promotion of the Bogdanka brand. Radio and television broadcasts of sports tournaments and sponsored social or sports events, articles about sports teams sponsored by the Company and their photographs published in the press demonstrated the Company's commitment to the promotion of sports and active

lifestyle. All these activities were aimed at promoting the Company's image – domestic and international success, earning the trust of public circles that have an influence on the Company's operations.

The Company's promotional budget for 2015 was also used to finance projects that correspond to the CSR concept, including an educational path around a reservoir in Nadrybie developed together with the Polish Society for the Protection of Birds. Such activities are among other things aimed at showing the Company's concern about its environment, and thereby increasing the level of employees' identification with the Company's corporate brand and creating their need to be the ambassadors of their employer's brand.

In conclusion, the sponsorship of Górnik Łęczna S.A. (together with the Górnik Łęczna Sports Academy), as well as the purchase of advertising in nationwide media, promoted the BOGDANKA brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of the Lublin mine among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Brand promotion at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers.



### Donations

LW Bogdanka S.A. is a valued employer in the region. The Company's asset are the people, who identify with the business and its mission. The Company's personnel, together with their families, numbers over 12,000 individuals who are directly and indirectly associated with and financially dependent on the mine.

In its operations, apart from achieving positive economic results, the Company has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. Moreover, the Company sponsors sports and cultural activities. This philosophy benefits the Company, helps to promote a favourable image of a business that cares about non-economic activities and, first and foremost, encourages local initiative. The donations made by the Company in 2015 amounted to PLN 234,765.40.





### Court and out of court proceedings

As of the date of submitting this Report, the Company has no information on any proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority in which LW Bogdanka S.A. or its subsidiary is a party, concerning:

- liabilities or claims of LW Bogdanka S.A. or its subsidiary worth at least 10% of LW Bogdanka S.A.'s equity,
- two or more proceedings concerning liabilities or claims worth a total of at least 10% of LW Bogdanka S.A.'s equity.

#### Arrangement proceedings

In 2015, the Company was not a party in arrangement proceedings.

#### Court cases with a value above PLN 1,000,000

##### Commercial lawsuits

##### Lawsuits against the Company

- A lawsuit filed by the Consortium of: Budimex S.A. with its registered office in Warsaw, Ferrovia Agroman S.A. with its registered office in Madrid, and Mostostal Kraków S.A. with its registered office in Krakow, for payment of damages in the total amount of PLN 10.1 million plus statutory interest from 2 November 2010 to the date of payment, pending before the Regional Court in Lublin, IX Commercial Division, case No. IX GC 245/11. In its judgment of 26 May 2015, the Court dismissed the claim in its entirety. The Claimant filed an appeal against that judgment. On 12 August 2015 the Company submitted a reply to the Claimant's appeal to the Court of Appeal in Lublin, I Civil Division. The appeal trial has not been scheduled yet.
- A lawsuit regarding a complaint filed by Dębieńsko Sp. z o.o. with registered office in Czerwionka – Leszczyny requesting resumption of the proceedings ended with a final and legally binding judgment in default of the Regional Court in Gliwice, X Commercial Division, of 16 July 2008, case No. X GC 60/08, pending before the Regional Court in Gliwice, case No. X GC 242/12. The value of litigation: PLN 14.4 million. By virtue of a judgment of 22 January 2015 of the Regional Court in Gliwice, a complaint requesting resumption of the proceedings ended with a final and legally binding judgment in default of the Regional Court in Gliwice of 16 July 2008 was dismissed, and the Court awarded from Dębieńsko Sp. z o.o.. The Claimant

appealed against that judgment. The Company filed a reply to the appeal. In its judgment of 26 November 2015, the Court of Appeal in Katowice, case No. V Aca 333/15, changed the judgment of the court of first instance in part by way of annulling it in respect of the amount of PLN 531,000, and dismissed the appeal of Dębieńsko sp. z o.o. in other respects. The above judgment is final and legally binding. However, each party may file a cassation complaint to the Supreme Court.

- A case initiated by PMKSiUG PEMUG S.A. in which the Company was called to attend a conciliation conference regarding a payment of PLN 1.1 million, pending before the District Court in Lublin-Wschód in Lublin with its seat in Świdnik, VIII Commercial Division, case No. VIII GCo 1374/14. The call concerns the payment of PLN 1.1 million as a fee for the performance of works covered by agreement No. 554/IB/2010 of 29 April 2010. The Company set off that amount against the Company's claim towards PMKSiUG PEMUG S.A. in Katowice due on account of liquidated damages. A settlement was not signed at the trial on 11 February 2015.
- A lawsuit filed by Wit Kotnarowski, Stanisław Stachowicz and Janusz Chmielewski for payment of PLN 32 million, pending before Regional Court I Civil Division, case No. I C 942/13. The indicated amount is the total amount subject to separate calculations of remuneration for each of the Claimants. By the time of drafting this information, pleadings presenting final stances of litigants have been made and lodged. The Company filed for annulment of the Patent in the proceedings before the Patent Office and in relation thereto filed for dismissing the claim in full. In its decision of 22 May 2015, the Patent Office refused to annul the Patent. Moreover, the Company claims that its mine does not use the solution tantamount to the one protected under the Patent which would justify dismissing the claim in full. The first trial was held on 8 May 2014 and was of strictly organisational nature. At trials held on 18 and 20 November 2014 and on 22 September 2015, the witnesses of both Parties were questioned. On 22 September 2015, the Court agreed to examine an expert opinion of a patent attorney as evidence in the case to establish whether the solution used in the Company's shaft is tantamount to the one protected under the Patent. This opinion is a key piece of evidence in the case, as the

conclusions drawn in the opinion will provide grounds to decide whether the Defendants should, as a matter of principle, make a claim for compensation. The court scheduled the next trial for 5 April 2016.

#### Lawsuits filed by the Company

A lawsuit filed by the Company against Aleksander Kabut and Marek Sitarz for payment of PLN 29.6 million, pending before the Regional Court, Commercial Court, in Gliwice, case No. X GC 122/11. Under this lawsuit, the Company seeks award of the demanded sum from the defendants on account of their liability as members of Management Board of Dębieńsko Sp. z o.o. with registered office in Czerwionka Leszczyny under Article 299.1 of the Polish Commercial Companies Code. By virtue of a judgment of 18 April 2013, the Court awarded the Company jointly and severally from the Defendants the amount of PLN 23 million plus statutory interest from 14 April 2011 by the payment date, while in the remaining part it dismissed the claim. The judgment is not final and legally binding. The Defendants appealed against the aforesaid judgment and lodged the motions for exemption from costs. With the decision of 21 May 2013 the Company submitted responses to the aforesaid appeal. The Court of Appeal in Katowice by virtue of a judgment dated 29 May 2014, dismissed the Defendants' appeal. As regards the appeal dismissal, the aforementioned judgment is final and legally binding. The Defendant, Marek Sitarz, filed a cassation complaint against the aforesaid judgment with the Supreme Court. The Company lodged a response to the above-mentioned cassation complaint on 18 October 2014. In its decision of 30 June 2015, the Supreme Court refused to consider the cassation complaint filed by Marek Sitarz and ordered him to reimburse the costs of cassation proceedings. The Company sent a request for payment of the amounts awarded thereto under the judgment of the Court of first instance, i.e. the request for payment of PLN 23.1 million plus statutory interest calculated from 14 April 2011 to the date of payment. On 18 August 2014, the Law Office filed a motion for property disclosure in relation to both Defendants. On 3 November 2014, the Defendant Aleksander Kabut lodged the list of assets with the District Court in Gliwice. Whereas, the Defendant Marek Sitarz lodged his list of assets on 19 March 2015. The proceedings regarding property disclosure have ended.



### Court and out of court proceedings

#### Administrative proceedings

- The Company is involved in administrative proceedings regarding real property tax on underground excavations located in the territory of communes neighbouring the mine. The Company, just as other mining companies, does not include underground excavations in its real property tax returns. More information is available in the Financial Statement in Note 23. It includes information on reimbursement of overpayments on this account in 2010-2012.
- At the request of the Company, on 19 December 2013 submitted by the Minister of Environment, proceedings were initiated to grant the Company a hard coal mining licence for "Lublin K-6, K-7" deposit. The administrative proceedings ended with a decision of the Minister of Environment of 5 September 2014, which was upheld in a decision of 5 November 2014 following reconsideration of the case. The licensing entity refused to grant the Company a mining licence on the grounds of conflict with the public interest. In accordance with the decision of the Minister of Environment, the granting of the mining licence for "Lublin K-6, K-7" deposit to the Company would be in conflict with the public interest, because another company, i.e. PDCo, has a licence to explore hard coal in "Lublin K-6, K-7" deposit (licence No. 23/2012/p of 31 July 2012). The Company filed a complaint against the decision on refusal to grant the Company the mining licence with the Provincial Administrative Court in Warsaw. The decision on refusal to grant the Company the mining licence was issued in violation of the provisions on administrative procedures and substantive provisions of the Act on Geological and Mining Law of 9 June 2011 ("Act"). The Minister of Environment violated the Act by failure to refer to the Minister of Economy with respect to the granting of the licence, and therefore, deprived the cooperating body of a possibility of presenting its opinion on whether the granting of the licence is in the public interest. Such an infringement rendered it impossible for the licensing body to comprehensively assess the question of public interest. Having taken cognizance of the Company's complaint at a trial, the Provincial Administrative Court in Warsaw, in its judgement of 16 March 2016, dismissed the complaint. The Company will appeal against the above judgement to the Supreme Administrative Court.
- Proceedings for determination of the maintenance fee due from the Company for hard coal excavation in H2 2013. In relation to non-issuance by the Head of the Puchaczów Commune and the Head of the Ludwin Commune of decisions under Article 76a.1 of the Tax Regulations Act on application of the Company's overpayments in real property tax for 2005 and 2007, respectively, towards the Company's liability under the maintenance fee for extraction of hard coal in H2 2013, the Minister of Environment instigated in relation to

the Company the proceedings to determine this fee. By virtue of a decision of 10 April 2014, the Minister of Environment refused to suspend the said proceedings. Following the Company's motion to re-examine the petition for the proceedings' suspension, the Minister of Environment with its decision of 13 May 2014 upheld the challenged decision. With its decision of 10 June 2014, the Minister of Environment determined for the Company the amount of the maintenance fee due therefrom for H2 2013 of PLN 7.6 million, including in relation to the Puchaczów Commune the amount of PLN 1.7 million and in relation to the Ludwin Commune the amount of PLN 1.1 million. On 11 July 2014, the Company filed a motion for re-examination of the case. On 27 August 2014, the Company requested the Minister of Environment for suspension of the proceedings conducted following the Company's motion for re-examination of the case. By virtue of a decision of 23 September 2014, the Minister of Environment refused to suspend the said proceedings. On 17 October 2014, the Company filed a motion for re-examination of the case terminated with the aforementioned decision of the Minister of Environment of 23 September 2014. With the decision of 4 November 2014, the Minister of Environment upheld the challenged decision. With the decision of 26 November 2014, the Minister of Environment upheld the challenged decision issued in the first instance. The Head of the Puchaczów Commune finally applied the Company's overpayment in real property tax for 2004 towards the Company's tax liabilities under maintenance fee for H2 2013.

- The Company is a party to a dispute with the Social Insurance Institution as to whether the Company was right to change the category of accidents at work. More information is available in the Financial Statements in Note 23.

#### Material cases regarding non-property rights

The Company is involved in the proceedings with case No. IX GC 470/12 before the Regional Court in Lublin initiated on 4 October 2012 by Mirosław Taras, former President of the Management Board of the Company. The Claimant requests in the present case that resolution no. 21/VIII/2012 adopted by the Supervisory Board of the Company on 27 September 2012, removing him from the position of the President of the Management Board, be found invalid or quashed. In the Claimant's opinion, the resolution is invalid because of the infringement of good customs by the Supervisory Board, having powers, according to the Commercial Companies Code and the Articles of Association of the Company, to remove the President of the Management Board at any time. In addition, the Claimant points to the lack of any factual grounds for his removal.

On 27 December 2012, the Claimant extended the claim and requested that resolution No. 33/VIII/2012 adopted by the Supervisory Board of the Company on 23 November 2012, appointing Mr Zbigniew Stopa as

the President of the Management Board, be found invalid or quashed. On 14 July 2014, having held the proceedings, the Regional Court in Lublin issued a judgement dismissing the claim. On 22 August 2014, the Claimant appealed against that judgement to the court of second instance (Court of Appeal in Lublin) and on 26 September 2014 the Defendant lodged a response to the appeal.

The reporting judge is Walentyna Łukomska-Drzymala, Administrative Court Judge.

On 4 March 2015, the Court of Appeals in Lublin dismissed the appeal brought by Mr M. Taras against the judgement of the Regional Court. Thus, Mr M. Taras's lawsuit against the Company had been dismissed in a legally final and binding manner.

On 3 June 2015, the attorney of Mr M. Taras filed a cassation complaint against the judgement of the Court of Appeals in Lublin of 4 March 2015, to which LW Bogdanka S.A. responded in a letter of 25 June 2015.

Under the decision of 16 December 2015, the Supreme Court rejected to accept the above cassation complaint for consideration.

Therefore, the case brought against the Company by Mr M. Taras should be considered as definitely discontinued.

#### Arbitration proceedings

On 7 April 2015, the Company was summoned for arbitration before the Court of Arbitration at the National Chamber of Commerce in Warsaw by Mostostal Warszawa S.A. with registered office in Warsaw and Acciona Infraestructuras S.A. with registered office in Madrid ("Consortium"). The dispute concerns the Consortium's claims arising from the contract of 29 June 2010 for the expansion of Mechanical Coal Processing Plant in Bogdanka ("Contract for MCPP Expansion"). The Consortium's claims put forward in the arbitration dispute, including reimbursement of the costs incurred by the Consortium in connection with the extension of the term of the Contract for MCPP Expansion, liquidated damages for withdrawal by the Consortium from the Contract for MCPP Expansion due to alleged fault of the Company, and payment for the works performed and additional works, amount to a total of ca. PLN 574 thousand, which is 1% of the value of the Consortium's hypothetical claims in connection with the performance and settlement of the Contract for MCPP Expansion. The Consortium went to the Court of Arbitration in reaction to the Company charging liquidated damages to the Consortium for a delay in the works, contractual compensation for non-completion of the works on time by the Consortium, and compensation for lost profits.



Information on the auditor responsible for auditing the report and rules for preparing the annual separate financial statements

The Tribunal of the Court of Arbitration found that it had no jurisdiction in four of the five claims asserted by the Consortium, stating that it was competent only to examine the Consortium's claim related to the Company's claim under performance bond No. GWU/2012/118362 of 4 September 2012 issued by RBS Bank (Polska) S.A. to the Company. The value of this claim amounts to PLN 15,000,000 (but in the arbitration proceedings, the Consortium is seeking 1% of this claim, i.e. PLN 150,000). The Tribunal determined that the Consortium should reimburse the Company for part (60% net) of the legal representation costs relating to the proceedings regarding jurisdiction. The other claims may be pursued by the Consortium before a court of law.

**Information on the auditor responsible for auditing the report**

On 13 August 2015, an agreement was concluded with Deloitte Polska sp. z o.o. sp. k. as an entity authorised to:

- review the financial statements and the consolidated financial statements of the Group for the first six months of 2015, 2016 and 2017,
- audit the financial statements of the Company and the consolidated financial statements of the Group for 2015, 2016 and 2017.

More information on the selection of the auditor is available in Current Report No. 20/2015 of 26 June 2015.

The table contains information on fees payable to the entity auditing the statements in 2014-2015.

Deloitte PL* (PLN '000)	2014	2015
• audit of annual financial statements	60	106
• review of financial statements	40	69
• other certifying services (verification of ratios)	45	39
<b>Total</b>	<b>145</b>	<b>214</b>

\*Deloitte Polska sp. z o.o. sp.k.

The term of the agreement entered into by and between LW Bogdanka S.A. and the auditor is 3 years. The agreement remains in force and effect until 2017.

**Basis of preparation of the Annual Separate Financial Statements**

The Financial Statements of LW Bogdanka S.A. were prepared on the basis of the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission.

The Financial Statements were prepared according to the historical cost principle except for derivative financial instruments measured at fair value and share-based payments, including the valuation at fair value of certain components of property, plant and equipment in connection with assuming fair value as a deemed cost. The valuation was carried out as at 1 January 2005. The Financial Statements were prepared using the same accounting principles for the current and comparative periods. Detailed basis of preparation of the Annual Separate Financial Statements can be found in the Annual Separate Financial Statements for 2015.

**Differences between financial results and projected results for 2015**

In 2015 LW Bogdanka S.A. did not publish projections of the Company's separate or consolidated financial results for 2015.







### 3. Financial standing



Production, sales and inventories of coal

Information on current and forecast economic and financial position of LW BOGDANKA S.A. with the assessment of financial resources management

The current market situation (oversupply of coal, constant pricing pressure from customers, sales of coal piled in the heaps at understated prices) forces the Company to take various measures in order to keep liquidity and performance results at a level adequate to the market situation. LW Bogdanka S.A. monitors on an ongoing basis the level of costs, ratios and the amount of accumulated cash. The agreements that are signed at the moment (on the issue of bonds, overdraft facility) together with the level of cash held guarantee current financing.

Works are consistently conducted to optimise the mining process (in terms of the technologies employed) and, simultaneously, a cost reduction program is being implemented (decrease of the coal extraction unit cost). All works (new excavation planning, extraction and sale of commercial coal) take into account existing and future market risks (decline in demand for thermal coal and in its price). Works to prepare new excavations for operational exploitation are carried out in order to ensure the continuity of extraction. Global coal prices are monitored on an ongoing basis.

LW Bogdanka S.A. pays its liabilities when due. The Company effectively manages its financial resources and, at the same time, deposits free funds with banks (for durations and in amounts determined on the basis of in-house short-term financial forecasts). As at the date of drawing this information, the Company sees no threats that could deteriorate its ability to pay its liabilities in the future.

Production, sale and inventories of coal

In the fourth quarter of 2015, the production of commercial coal in the Company decreased by 1.3% compared to the same period of 2014 and amounted to 2,527,000 tonnes.

In the period from January to December 2015, the production of commercial coal was 8,457,000 tonnes, i.e. it was lower by 8.0% than in the same period of 2014. The decline in coal production is connected to the adverse market situation (oversupply of coal), which means that the production of coal was effected without using full production capacities and is tailored to the level of sales and warehousing capacities of the Company.

Production of commercial coal.

['000 tonnes]	2014	2015	Change	Change %
Production of commercial coal	9,192	8,457	-735	-8.0%
['000 tonnes]	Q4 2014	Q4 2015	Change	Change %
Production of commercial coal	2,561	2,527	-34	-1.3%

Structure of commercial coal production

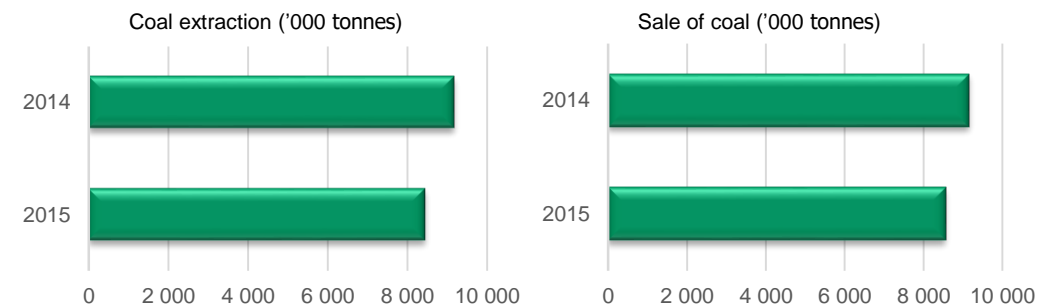
[%]	Q4 2014	Q4 2015	2014	2015
Fine coal	97.5%	98.7%	98.0%	98.5%
Nut coal	0.6%	0.7%	0.5%	0.6%
Pea coal	1.9%	0.6%	1.5%	0.9%
Total	100.0%	100.0%	100.0%	100.0%

In all analysed periods the structure of production did not change significantly – thermal fine coal remained the dominant assortment (its share in the production was in the range of 98%-99%).

In the fourth quarter of 2015, the sales of coal grew by 9.1% compared to the fourth quarter of 2014. In the period from January to December 2015, the sales of commercial coal amounted to 8,562,000 tonnes, i.e. they were smaller by 6.6% than in the same period of 2014.

Commercial coal sales

['000 tonnes]	2014	2015	Change	Change %
Sale of commercial coal	9,163	8,562	-601	-6.6%
['000 tonnes]	Q4 2014	Q4 2015	Change	Change %
Sale of commercial coal	2,340	2,554	214	9.1%





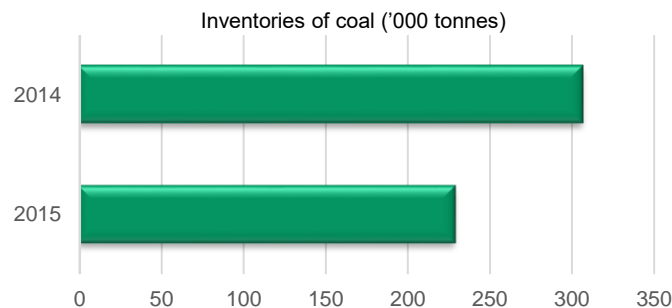
Revenue and key customers

As at the end of Q4 2015, the inventories of coal amounted to 228,000 tonnes which means a drop by 78,000, i.e. by 25.5%, compared to 31 December 2014. The level of coal inventories as presented for the end of Q4 2015 corresponds to approx. seven days of commercial coal production (on the basis of an average 12-month daily production).

Inventories of coal

['000 tonnes]	31 Dec. 2014*	31 Dec. 2015	Change	Change %
Inventories of coal	306	228	-78	-25,5%

\*The presented level of inventories as at 31 December 2014, took into account a coal deposit (116,000 tonnes) for several customers. This deposit was accounted for in total (supplied to customers) in Q1 2015.



The information on coal market in Poland is presented in the Directors' Report on Operations of LW Bogdanka S.A. for 2015 on pages 24-28.

Revenue and key customers

In Q4 2015, LW Bogdanka S.A. generated revenue in the amount of PLN 558,385,000, which represents an increase by 6.8% compared to Q4 2014. The revenue for January-December 2015 amounted to PLN 1,883,118,000 compared to PLN 2,010,499,000 in the analogous period of 2014, which means a drop in revenue by 6.3% y-o-y.

The main source of revenue on sales of LW BOGDANKA S.A. is the production and sale of thermal coal. In each of the compared reporting periods this activity generates nearly 95% of the LW Bogdanka S.A.'s revenue.

In the separate annual financial statements published by LW Bogdanka S.A., for presentation purposes, data concerning revenue on coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of sold coal that was obtained during drilling of excavations. Bearing in mind the above, the values indicated in the income statement for the period from 1 January to 31 December 2015 was adjusted by PLN 58.802.000. while in the same period of the previous year – by PLN

92,487,000.

More than 94% of coal sales (in terms of value) in the period from 1 January 2015 to 31 December 2015 was effected between LW Bogdanka S.A. and Enea Wytwarzanie sp. z o.o., ENGIE Energia Polska S.A., ENERGA Elektrownie Ostrołęka S.A., PGNiG Termika S.A., Grupa Azoty - Zakłady Azotowe Puławy S.A. and EDF Paliwa sp. z o.o. For the period from 1 January 2014 to 31 December 2014 the share of the above customers in revenue of the sales of coal was similar.

The following companies were customers whose share in the Company's sales in 2015 exceeded 10% of the total revenue:

- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 42% of share in the revenue
- ENGIE Energia Polska S.A. (Połaniec) – approx. 20% of share in the revenue
- ENERGA Elektrownie Ostrołęka S.A. - approx. 11% of share in the revenue

Dynamics of changes in product range with respect to revenue

	[PLN '000]	Q4 2014	Q4 2015	Change	Change %	2014	2015	Change	Change %
Sale of coal		500,924	539,283	38,359	7.7%	1,926,795	1,815,441	-111,354	-5.8%
Sale of ceramics		362	60	-302	-83.4%	3,753	1,185	-2,568	-68.4%
Other operations		18,406	15,198	-3,208	-17.4%	67,874	53,765	-14,109	-20.8%
Sale of goods and materials		3,383	3,844	461	13.6%	12,077	12,727	650	5.4%
<b>Total revenue</b>		<b>523,075</b>	<b>558,385</b>	<b>35,310</b>	<b>6.8%</b>	<b>2,010,499</b>	<b>1,883,118</b>	<b>-127,381</b>	<b>-6.3%</b>

In Q4 2015 revenue on other operations were PLN 15,198,000 (2.7% of total revenue), compared to PLN 18,406,000 (3.5% of revenue) in the analogous period of 2014 (-17.4%). A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by LW BOGDANKA S.A. for the benefit of some customers (this item had the largest impact on the decrease in revenue in that group),
- revenue on the lease of non-current assets
- revenue on industrial services provided to companies performing works contracted by the Company



### Sales and costs by type

In the period from 1 January 2015 to 31 December 2015, income on other operations went up by PLN 53,765,000 compared to PLN 67,874,000 in the same period of 2014. As in Q4, the decrease in revenue in that group is attributable to lower revenue on coal transport services provided by LW BOGDANKA S.A. for the benefit of some customers,

The share of revenue from the sale of goods and materials in Q4 2015 was comparable to that recorded for Q4 2014 and was 0.7%. In 2014 and 2015 (both Q4 and four quarters), the dominant position in this group of revenue was revenue from the sales of scrap.

Revenue - structure by product types

[%]	Q4 2014	Q4 2015	2014	2015
Sale of coal	95.8%	96.6%	95.8%	96.4%
Sale of ceramics	0.1%	0.0%	0.2%	0.1%
Other operations	3.5%	2.7%	3.4%	2.8%
Sale of goods and materials	0.6%	0.7%	0.6%	0.7%
<b>Total revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The Company operates primarily in Poland. In Q4 2015, the Company did not export products and goods. For four quarters of 2015 the share of exports in the total revenue was 0.1% (PLN 2,743,000) which was mainly attributable to export of coal beyond our eastern border. In four quarters of 2014 the exports covered primarily ceramic products.

Geographical structure of revenue

[PLN '000]	Q4 2014	Structure	Q4 2015	Structure	2014	Structure	2015	Structure
Domestic sales	523,046	100.0%	558,385	100.0%	2,010,051	100.0%	1,880,375	99.9%
Foreign sales	29	0.0%	0	0.0%	448	0.0%	2,743	0.1%
<b>Total revenue</b>	<b>523,075</b>	<b>100.0%</b>	<b>558,385</b>	<b>100.0%</b>	<b>2,010,499</b>	<b>100.0%</b>	<b>1,883,118</b>	<b>100.0%</b>

### Suppliers

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. At LW BOGDANKA S.A. all procurement orders above the thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the abovementioned Act. Other orders are made based on procedures applied at the Company.

The principal suppliers for LW Bogdanka include mainly companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of workings, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January 2015 and 31 December 2015, the value of the turnover with any supplier did not exceed 10% of the Company's total revenue.

### Costs

This section presents costs of LW Bogdanka S.A. by type and function. The costs incurred, in accordance with the formula presented, reflect the use of a given means or factor of production (e.g. materials, energy or labour costs) regardless of whether these will be charged to the costs of a given period as related to the product excavated and sold (commercial coal) or whether they have been used by the Company to finance the construction of an investment facility (incl. longwall galleries) and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated.

### Cost by type Q4

In Q4 2015, LW Bogdanka S.A. incurred costs by type in the amount of PLN 513,512,000 (PLN - 42,174,000 y-o-y), i.e. by 7.6% lower than in Q4 2014. The decrease of costs noted in Q4 2015 was largely influenced by the reduction in the costs of employee benefits and outsourced services.

Total cost of materials and energy consumption slightly went down by 0.6% compared to Q4 2014, and totalled PLN 102,913,000. In the period under analysis, the cost of energy dropped (the scope of preparatory works was smaller – 4.4 km of galleries were completed in Q4 2015, compared to 5.7 km in the previous year, which represents a decrease of 23%). The value of outsourced services in Q4 2015 went down from PLN 120,012,000 in Q4 2014 to PLN 112,680,000 (-6.1%). In the period under analysis a decrease was recorded primarily in overhauls and maintenance as well as transport services (mainly rail transport).

In 2015, compared to 2014, the value of employee benefits dropped by PLN 25,666,000. In the analysed period the salaries and wages along with overheads went down (average employment in Q4 2015 dropped compared to analogous period of 2014).

The value of depreciation/amortisation decreased by 5.3% (to PLN 102,193,000) – depreciation/amortisation of non-current assets increased with a simultaneous drop in activity depreciation.



### Costs by type

The value of taxes, fees and charges went down in Q4 2015 to PLN 7,905,000 from PLN 8,723,000 in Q4 2014 – the exploitation fee and real property tax was lower.

The value of other costs went down from PLN 2,187,000 (Q4 2014) to PLN 1,316,000 (Q4 2015) – primarily due to property insurance and lower compensation for mining damage.

#### 2015

In the period between 1 January 2015 and 31 December 2015, LW Bogdanka S.A. incurred costs by type in the amount of PLN 1,756,457,000, i.e. by 9.6% (PLN 187,375,000) lower than in the same period of 2014. The decrease of costs recorded in the analysed period was largely influenced by the reduction in the costs of outsourced services and consumption of materials and energy.

Total cost of materials and energy consumption went down by 13.0% compared to the four quarters of 2014, and totalled PLN 393,104,000. In the period under analysis, the cost of energy (understood as the sum of the costs of electricity, hot water and other utilities) slightly decreased, with the cost of materials used going down significantly, which is related to the fact that the scope of preparatory works was smaller (20.0 km of galleries were completed during 12 months of 2015, compared to 29.8 km in the previous year, which represents a decrease of 33.0%).

The value of outsourced services in four quarters of 2015, compared to the same period of 2014, went down from PLN 467,529,000 to PLN 376,400,000 (-19.5%). In the period under analysis, drops were recorded in all types of outsourced services, but notably in drilling and mining works (for drilling and reconstruction of excavation pits), overhauls and maintenance as well as transport services (lower coal sales where ensuring transport to the customer was LW Bogdanka S.A. responsibility).

In 2015, compared to 2014, the value of employee benefits dropped by PLN 34,691,000. In the analysed period a drop was recorded in salaries and wages along with overheads as well as other employee benefits. As at 31 December 2015, the number of staff employed at the Company amounted to 4,555 persons and was lower by 375 compared to 31 December 2014.

The value of depreciation/amortisation went down by 0.3% (to PLN 381,900,000) – depreciation/amortisation of non-current assets increased with a simultaneous drop in activity depreciation.

The value of taxes and charges decreased during the twelve months of 2015 to PLN 34,560,000 from PLN 35,934,000 during twelve months of 2014 – exploitation fee went down (as a result of reduced mining), with a concurrent increase in the real property tax.

The value of other costs increased from PLN 20,532,000 (four quarters of 2014) to PLN 21,492,000 (four quarters of 2015) – the value of property insurance increased.

The adjustment of costs by type of: the value of impairment loss of property, plant and equipment and intangible assets, change in products and accruals and deferrals, the costs of own work and the costs of goods and materials sold, resulted in own selling costs which, for four quarters of 2015, amounted to PLN 2,207,220,000. As compared to the analogous period of the previous year, it is higher by 34.5% (with a simultaneous year-on-year decrease by 6.6% in the amount of coal sold). The value of the impairment loss was PLN 624,772,000. Own selling cost for four quarters of 2015, net of the abovementioned impairment loss, would amount to PLN 1,582,448,000, i.e. by 3.5% less than in the analogous period of 2014.

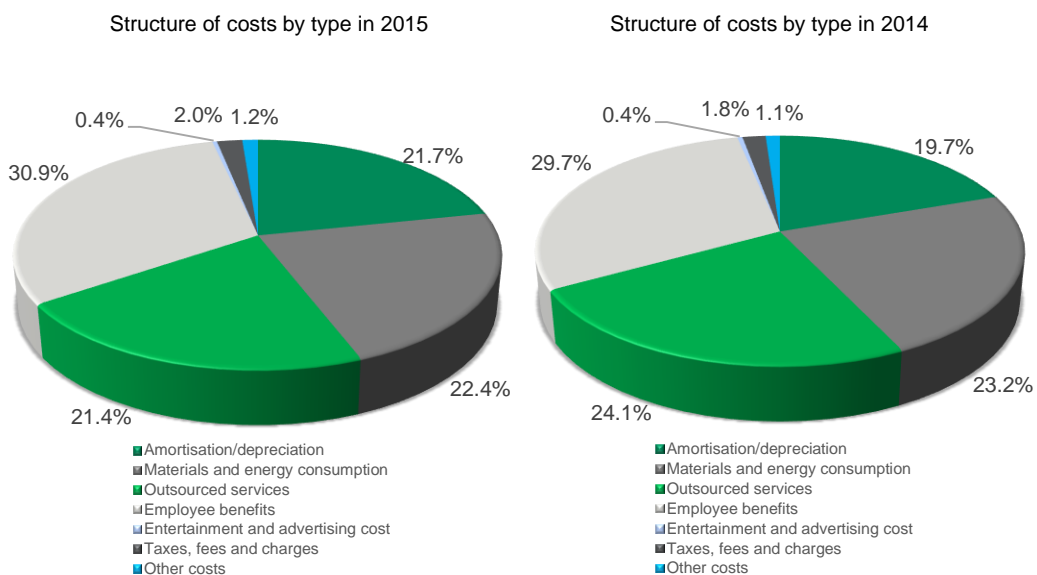
#### Costs by type\*

[PLN '000]	Q4 2014	Q4 2015	Change	2014	2015	Change
<b>Net production ['000 tonnes]</b>	2 561	2 527	-1,3%	9 192	8 457	-8,0%
Sales ['000 tonnes]	2 340	2 554	9,1%	9 163	8 562	-6,6%
Amortisation/depreciation	107 942	102 193	-5,3%	382 955	381 900	-0,3%
Materials and energy consumption	103 504	102 913	-0,6%	451 808	393 104	-13,0%
Outsourced services	120 012	112 680	-6,1%	467 529	376 400	-19,5%
Employee benefits	211 430	185 764	-12,1%	577 337	542 646	-6,0%
Entertainment and advertising costs	1 888	741	-60,8%	7 737	6 355	-17,9%
Taxes, fees and charges	8 723	7 905	-9,4%	35 934	34 560	-3,8%
Other costs	2 187	1 316	-39,8%	20 532	21 492	4,7%
<b>Total costs by type</b>	<b>555 686</b>	<b>513 512</b>	<b>-7,6%</b>	<b>1 943 832</b>	<b>1 756 457</b>	<b>-9,6%</b>
Cost of own work	-47 698	-46 144	-3,3%	-235 601	-184 275	-21,8%
Deferred expenses and rebates	-55 195	-49 833	-9,7%	-2 821	-8 824	212,8%
Value of coal from workings	-17 641	-10 174	-42,3%	-92 487	-58 802	-36,4%
Provisions and other present adjustments between costs by type and by function	-16 790	18 270	-208,8%	15 712	46 406	195,4%
Impairment loss for property, plant and equipment and intangible assets	0	624 772	-	0	624 772	-
<b>Total production cost</b>	<b>418 362</b>	<b>1 050 403</b>	<b>151,1%</b>	<b>1 628 635</b>	<b>2 175 734</b>	<b>33,6%</b>
Change in products	-35 811	1 403	-103,9%	-62	18 835	-
Value of goods and materials sold	3 251	3 844	18,2%	11 935	12 651	6,0%
<b>Own cost of production sold, including:</b>	<b>385 802</b>	<b>1 055 650</b>	<b>173,6%</b>	<b>1 640 508</b>	<b>2 207 220</b>	<b>34,5%</b>
Costs of products, goods and materials sold	349 825	1 002 471	186,6%	1 502 244	2 054 607	36,8%
Selling cost	12 012	9 957	-17,1%	41 789	38 002	-9,1%
Administrative costs	23 965	43 222	80,4%	96 475	114 611	18,8%

\*Assets with indefinite useful lives are not depreciated/amortised, but tested for possible impairment each year. Depreciated/amortised assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a given asset exceeds its recoverable amount. Recoverable amount represents the asset's fair value less selling costs or the value in use, whichever is higher.

Costs by type and by function

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In four quarters of 2015 (compared to the same period of the previous year) the share of depreciation/amortisation went up (to 21.7%), and the share of outsourced services dropped (to 21.4%). Costs of employee benefits, outsourced services and materials and energy used accounted for ca. 75% of costs between 1 January 2015 and 31 December 2015, while in the comparable period of 2014 it was 77% of total costs of the Company.



Costs by function

Own cost of production sold (by function) in Q4 2015 was PLN 1,055,650,000 and was higher by 173.6% from the cost incurred in Q4 2014 – the year-on-year increase is mainly a result of the impairment loss made for property, plant and equipment and intangible assets (PLN 624,772,000), the provisions and other IAS presentation adjustments (in 2015 they increased costs and decreased in 2014) and the fact that in 2014 production of PLN 35,811,000 was allocated to inventories (for comparison, in 2015 inventories worth PLN 1,403,000 were sold).

Costs by function for the period January-December 2015 were higher in the analogous period of 2014 by PLN 566,712,000 and amounted to PLN 2,207,220,000.

Costs by function

[PLN '000]	Q4 2014	Q4 2015	Change	2014	2015	Change
Net production ['000 tonnes]	2,561	2,527	-1.3%	9,192	8,457	-8.0%
Sales ['000 tonnes]	2,340	2,554	9.1%	9,163	8,562	-6.6%
Costs of products, goods and materials sold	349,825	1,002,471	186.6%	1,502,244	2,054,607	36.8%
Selling cost	12,012	9,957	-17.1%	41,789	38,002	-9.1%
Administrative costs	23,965	43,222	80.4%	96,475	114,611	18.8%
<b>Own cost of production sold</b>	<b>385,802</b>	<b>1,055,650</b>	<b>173.6%</b>	<b>1,640,508</b>	<b>2,207,220</b>	<b>34.5%</b>

Structure of costs by function

[%]	Q4 2014	Q4 2015	2014	2015
Costs of products, goods and materials sold	90.7%	95.0%	91.6%	93.1%
Selling cost	3.1%	0.9%	2.5%	1.7%
Administrative costs	6.2%	4.1%	5.9%	5.2%
<b>Own cost of production sold</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



Provisions

Provisions

Balance-sheet provisions

[PLN '000]	31 Dec. 2014	31 Dec. 2015	Change
<b>Employee provisions</b>	223,875	247,997	10.8%
Provision for real property tax	23,258	23,881	2.7%
Provision for the mine closure costs and reclamation	123,585	130,179	5.3%
Mining damage	9,155	8,497	-7.2%
Provision for ZUS claims for occupational injury contribution	15,901	18,727	17.8%
Other	25,295	29,907	18.2%
<b>TOTAL</b>	<b>421,069</b>	<b>459,188</b>	<b>9.1%</b>

The total provisions as at 31 December 2015 amounted to PLN 459,188,000, which means an increase by 9.1% compared to the value as at the end of 2014. Employee provisions grew by 10.8% and amounted to PLN 247,997,000 as at 31 December 2015. Because of the implemented retirement of employees the provision for pension and disability severance pays went down. At the same time an increase was observed in the provisions for coal allowance (because of changing assumptions to the actuarial valuation model) and for holidays as well as in the payroll fund (creation of provisions for a future liability).

The change in provisions in the fourth quarter of 2015 was PLN +27,510,000 compared to PLN -12,458,000 in the fourth quarter of 2014. The change in provisions in the period from 1 January to 31 December 2015 was PLN +38,119,000, while in the same period of the previous year it was PLN +73,020,000.

Change in provisions

[PLN '000]	Change in Q4 2014	Change in Q4 2015	Change	Change in 2014	Change in 2015	Change
<b>Employee provisions</b>	-10,660	10,259	-	25,941	24,122	-7.0%
Provision for real property tax	-10,786	-507	-95.3%	-4,588	623	-113.6%
Provision for the mine closure costs and reclamation	7,577	14,435	90.5%	38,307	6,594	-82.8%
Mining damage	-2,432	970	-139.9%	-3,778	-658	-82.6%
Provision for ZUS claims for occupational injury contribution	3,487	331	-90.5%	15,901	2,826	-82.2%
Other	356	2,022	468.0%	1,237	4,612	272.8%
<b>TOTAL</b>	<b>-12,458</b>	<b>27,510</b>	<b>-</b>	<b>73,020</b>	<b>38,119</b>	<b>-47.8%</b>

Place where impact of the change in provisions is recognised in the financial statements

[PLN '000]	Change of provisions in Q4 2015	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Amount disclosed in Other Comprehensive Income	Change disclosed only in the balance-sheet — use of the provision
<b>Employee provisions</b>	10,259	22,646	1,500	0	5,109	-18,996
Provision for real property tax	-507	2,174	0	0	0	-2,681
Provision for the mine closure costs and reclamation	14,435	7,011	850	6,574	0	0
Mining damage	970	4,377	0	0	0	-3,407
Provision for ZUS claims for occupational injury contribution	331	0	331	0	0	0
Other	2,022	1,782	291	0	0	-51
<b>TOTAL</b>	<b>27,510</b>	<b>37,990</b>	<b>2,972</b>	<b>6,574</b>	<b>5,109</b>	<b>-25,135</b>

Place where impact of the change in provisions is recognised in the financial statements

[PLN '000]	Change of provisions in 2015	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Amount disclosed in Other Comprehensive Income	Change disclosed only in the balance-sheet — use of the provision
<b>Employee provisions</b>	24,122	57,822	5,719	0	5,246	-44,665
Provision for real property tax	623	8,549	0	0	0	-7,926
Provision for the mine closure costs and reclamation	6,594	9,463	3,399	-6,268	0	0
Mining damage	-658	4,377	0	0	0	-5,035
Provision for ZUS claims for occupational injury contribution	2,826	1,538	1,288	0	0	0
Other	4,612	3,741	1,153	0	0	-282
<b>TOTAL</b>	<b>38,119</b>	<b>85,400</b>	<b>11,550</b>	<b>6,268</b>	<b>5,246</b>	<b>57,000</b>

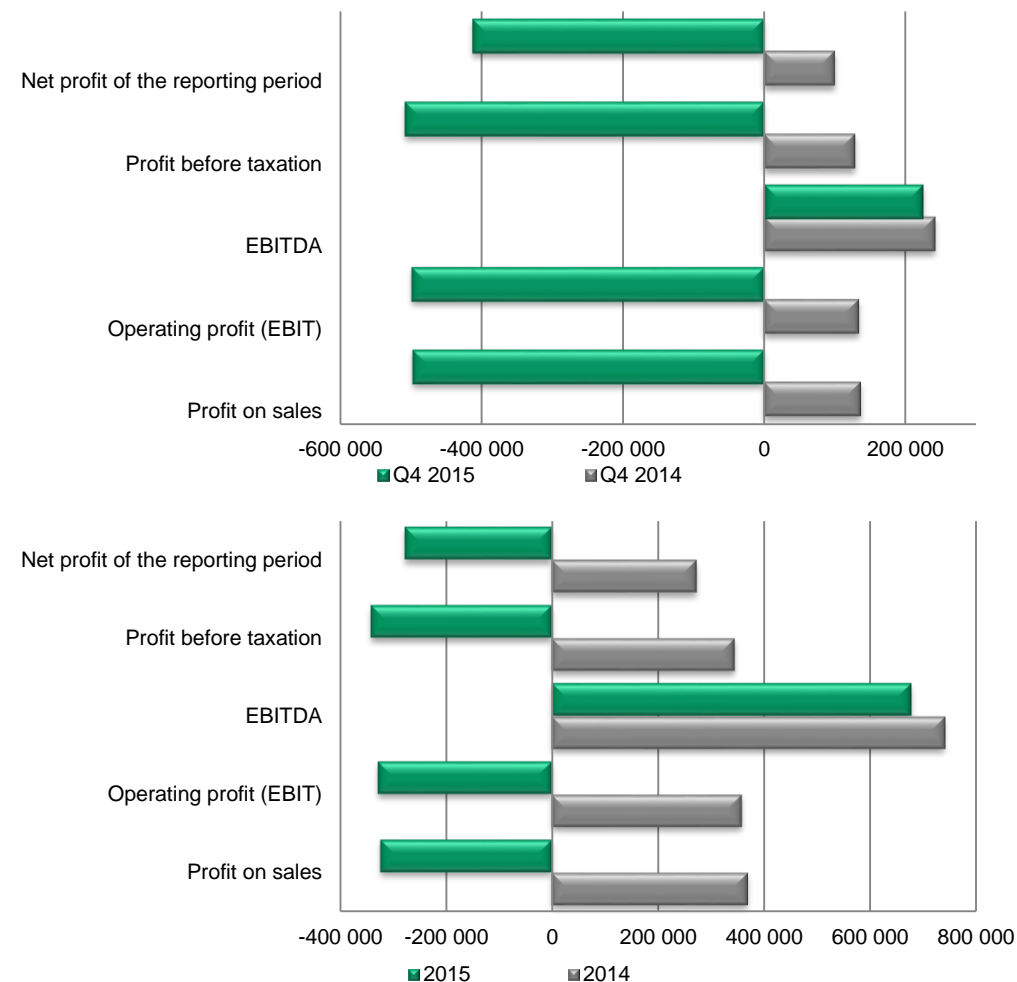
## Financial highlights

### Selected financial data of LW Bogdanka

Analysis of the separate income statement

[PLN '000]	Q4 2014	Q4 2015	Change	2014	2015	Change
Revenue	523,075	558,385	6.8%	2,010,499	1,883,118	-6.3%
Costs of products, goods and materials sold, selling costs, administrative costs	385,802	1,055,650	173.6%	1,640,508	2,207,220	34.5%
<b>Profit/loss on sales</b>	<b>137,273</b>	<b>-497,265</b>	<b>-462.2%</b>	<b>369,991</b>	<b>-324,102</b>	<b>-187.6%</b>
<i>Gross sales margin</i>	26.2%	-89.1%	-115.3 p.p.	18.4%	-17.2%	-35.6 p.p.
Other income	154	245	59.1%	869	2,597	198.8%
Other costs	2,174	1,382	-36.4%	3,477	1,958	-43.7%
<b>Net operating profit</b>	<b>135,253</b>	<b>-498,402</b>	<b>-468.5%</b>	<b>367,383</b>	<b>-323,463</b>	<b>-188.0%</b>
Other net profit/loss	-408	-3,068	652.0%	-8,744	-5,039	-42.4%
<b>Operating profit (EBIT)</b>	<b>134,845</b>	<b>-501,470</b>	<b>-471.9%</b>	<b>358,639</b>	<b>-328,502</b>	<b>-191.6%</b>
<i>EBIT margin</i>	25.8%	-89.8%	-115.6 p.p.	17.8%	-17.4%	-35.2 p.p.
<b>EBITDA</b>	<b>242,787</b>	<b>225,495</b>	<b>-7.1%</b>	<b>741,594</b>	<b>678,170</b>	<b>-8.6%</b>
<i>EBITDA margin</i>	46.4%	40.4%	-6.0 p.p.	36.9%	36.0%	-0.9 p.p.
Finance income	1	1,389	-	9,968	9,079	-8.9%
Finance costs	5,759	7,861	36.5%	23,443	22,850	-2.5%
<b>Profit before taxation</b>	<b>129,087</b>	<b>-507,942</b>	<b>-493.5%</b>	<b>345,164</b>	<b>-342,273</b>	<b>-199.2%</b>
<i>Pre-tax profit margin</i>	24.7%	-91.0%	-115.7 p.p.	17.2%	-18.2%	-35.4 p.p.
Income tax	28,446	-95,645	-436.2%	72,222	-64,244	-189.0%
<b>Net profit for the reporting period</b>	<b>100,641</b>	<b>-412,297</b>	<b>-509.7%</b>	<b>272,942</b>	<b>-278,029</b>	<b>-201.9%</b>
<i>Net sales margin</i>	19.2%	-73.8%	-93.0 p.p.	13.6%	-14.8%	-28.4 p.p.

Analysis of the separate income statement on individual levels of the Company's operations







### Financial highlights

#### Revenue

The value of revenue for Q4 2015 increased by 6.8% compared to the same period of the previous year and amounted to PLN 558,385,000.

In the period between 1 January 2015 and 31 December 2015 the Company generated revenue at a level of PLN 1,883,118,000 compared to PLN 2,010,499,000 in the same period of 2014 (decrease by 6.3%).

#### Costs of products, goods and materials sold, selling costs, administrative costs

In Q4 2015 the costs of products, goods and material sold plus selling and administrative costs went up by 173.6% compared by the same period of the previous year and amounted to PLN 1,055,650,000 (which was mainly attributable to impairment loss of assets). During four quarters the costs in question increased by 34.5% y-o-y.

#### Profit/loss on sales

In Q4 2015 (in relation to the impairment loss of assets) the Company incurred loss on sales PLN 497,265,000; in Q4 2014 the Company generated profit of PLN 137,273,000. For four quarters of 2015, the Company incurred loss on sales of PLN 324,102,000 compared to the profit for four quarters of 2014 amounting to PLN 369,991,000.

#### Other income

In Q4 2015 other income amounted to PLN 245,000 compared to PLN 154,000 a year before. The dominant item in the value for four quarters of 2015 (PLN 2,597,000) is the received damages (PLN 2,099,000).

#### Other costs and other net profits/losses

Other net losses in Q4 2015 amounted to PLN 3,068,000 compared to PLN 408,000 in Q4 2014 - which means an increase by PLN 2,660,000. The amount PLN -3,068,000 covers mainly the provision for the claims of the Social Insurance Institution (ZUS) for occupational injury contribution (PLN 1,538,000).

Data for four quarters 2015 show a decrease in other net losses (y-o-y) by PLN 3,705,000 – for four quarters 2014 the value of PLN 8,744,000 covered: provision for ZUS claims for occupational injury contribution, as well as a release of a provision of mining damage.

#### EBIT

The operating profit in Q4 2015 amounted to PLN -501,470,000 and was lower by 471.9% compared to Q4 2014, whereas EBIT for Q4 2015 was -89.8%, i.e. it was lower by 115.6 p.p. than in Q4 of the previous year. EBIT for four quarters of 2015 is lower by 35.2 p.p. compared to the analogous period of 2014 and was -17.4%.

#### EBITDA

EBITDA in Q4 2015 dropped by 7.1% compared to Q4 2014 and amounted to PLN 225,495,000. EBITDA margin in Q4 2015 was 40.4% and was lower than in the same analysed period of 2014.

For four quarters of 2014, the Company's EBITDA margin amounted to 36.0%, i.e. less by 0.9 p.p. compared to the same period in 2014 (when EBITDA dropped in the analysed period by 8.6%). EBITDA for the four quarters of 2015 was PLN 678,170,000 compared to PLN 741,594,000 in 2014.

#### Finance income

Finance income in Q4 2015 amounted to PLN 1,389,000. The increase in income is attributable to higher average level of cash in the Company. For four quarters of 2015 finance income was PLN 9,079,000, i.e. (-8.9% y-o-y).

#### Finance costs

In Q4 2015 finance costs were higher by 36.5% than the costs in the same period of 2014, and amounted to PLN 7,861,000.

The finance cost for twelve months of 2015 amounted to PLN 22,850,000 compared to PLN 23,443,000 in 2014 (decrease by 2.5%). The total debt of the Company amounted to PLN 700,092,000 as at 31 December 2015.

#### Profit before taxation

In Q4 2015 the Company generated pre-tax loss of PLN 507,942,000 compared to the generated profit of PLN 129,087 in Q4 2014.

The profit/loss before taxation for four quarters of 2015 amounted to PLN -342,273,000 against PLN +345,164,000 in the same period of 2014.

#### Net profit for the reporting period

In Q4 2015 the Company generated pre-tax loss of PLN 412,297,000 compared to the generated profit of PLN 100,641,000 in Q4 2014.

Net loss for four quarters 2015 amounted to PLN 278,029,000 while in the analogous period of the previous financial year the Company generated profit of PLN 272,942,000.





Impact of the non-recurring event (impairment loss of assets) on the Company's results

Impairment losses

The impairment loss for property, plant and equipment as well as for intangible assets, as discussed earlier, is of a non-cash and non-recurring nature. The table below shows the result which would be achieved by the Company without the impairment loss.

[PLN '000)	Q4 2014	Q4 2015	Change	2014	2015	Change
Revenue	523,075	558,385	6.8%	2,010,499	1,883,118	-6.3%
costs of products, goods and materials sold as well as selling and administrative costs	385,802	430,878	11.7%	1,640,508	1,582,448	-3.5%
<b>Profit/(loss) on sales</b>	<b>137,273</b>	<b>127,507</b>	<b>-7.1%</b>	<b>369,991</b>	<b>300,670</b>	<b>-18.7%</b>
<i>Gross sales margin</i>	26.2%	22.8%	-3.4 p.p.	18.4%	16.0%	-2.4 p.p.
Other income	154	245	59.1%	869	2,597	198.8%
Other costs	2,174	1,382	-36.4%	3,477	1,958	-43.7%
<b>Net operating profit/(loss)</b>	<b>135,253</b>	<b>126,370</b>	<b>-6.6%</b>	<b>367,383</b>	<b>301,309</b>	<b>-18.0%</b>
Other net profits/(losses)	-408	-3,068	652.0%	-8,744	-5,039	-42.4%
<b>Operating profit (EBIT)</b>	<b>134,845</b>	<b>123,302</b>	<b>-8.6%</b>	<b>358,639</b>	<b>296,270</b>	<b>-17.4%</b>
<i>EBIT margin</i>	25.8%	22.1%	-3.7 p.p.	17.8%	15.7%	-2.1 p.p.
<b>Net profit of the reporting period</b>	<b>100,641</b>	<b>93,768</b>	<b>-6.8%</b>	<b>272,942</b>	<b>228,036</b>	<b>-16.5%</b>
<i>Net sales margin</i>	19.2%	16.8%	-2.4 p.p.	13.6%	12.1%	-1.5 p.p.

Without the impact of the non-recurring event on the results:

Profit on sales

Profit on sales in Q4 2015 would fall by 7.1% as compared to Q4 2014 and would amount to PLN 127,507,000. This was affected by costs of products, goods and materials sold as well as selling and administrative costs which in Q4 would increase by 11.7% compared to the analogous period of the previous year and would amount to PLN 430,878,000.

Profit on sales for four quarters of 2015 would amount to PLN 300,670,000, i.e. less than the result for four quarters of 2014 by 18.7% (despite that costs in the discussed period were lower by 3.5%).

EBIT

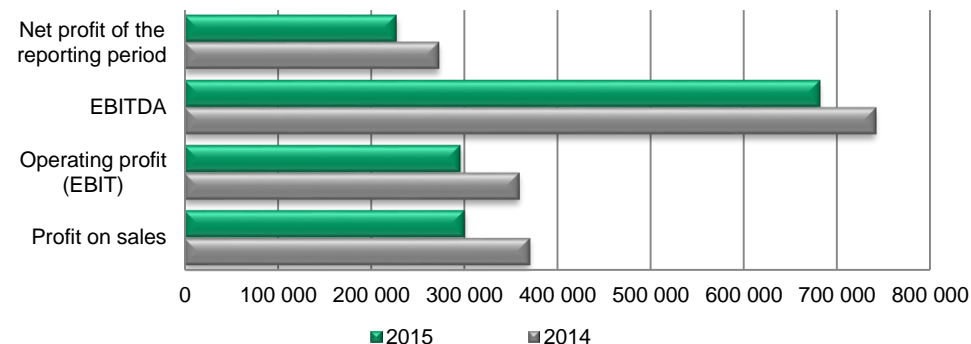
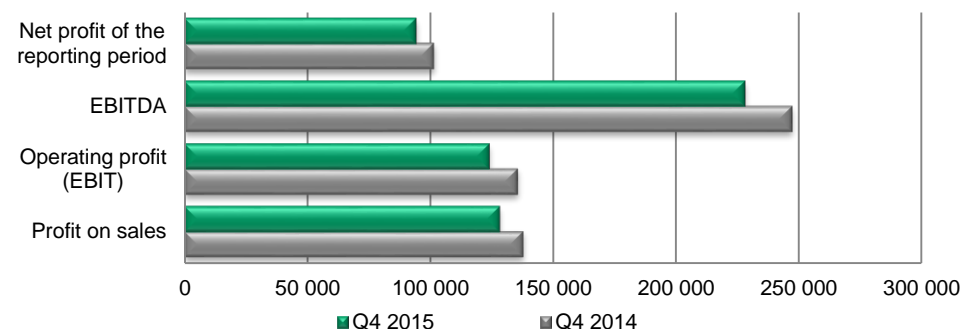
The operating profit in Q4 2015 would amount to PLN 123,302,000 and would be lower by 8.6% compared to Q4 2014, whereas EBIT for Q4 2015 would be 22.1%, i.e. lower by 3.7 p.p. than in Q4 of the previous year. EBIT for four quarters for 2015 would be lower by 2.1 p.p. in relation to the same period of 2014 and would be 15.7%.

Net profit for the reporting period

In Q4 2015 the Company would achieve net profit lower by 6.8% than in Q4 2014 – net profit would be PLN 93,768,000 (2015) against PLN 100,641,000 (2014). One of the reasons for such situation would be an increase in finance costs (in Q4 2015 they were higher by 36.5% than costs incurred in the analogous period of 2014 and amounted to PLN 7,861,000).

The net profit of the Company for four quarters of 2015 would be PLN 228,036,000 compared to PLN 272,942,000 (a decrease by 16.5%).

Analysis of the separate income statement on individual levels of the Company's operations, net of non-recurring events.





## Balance sheet

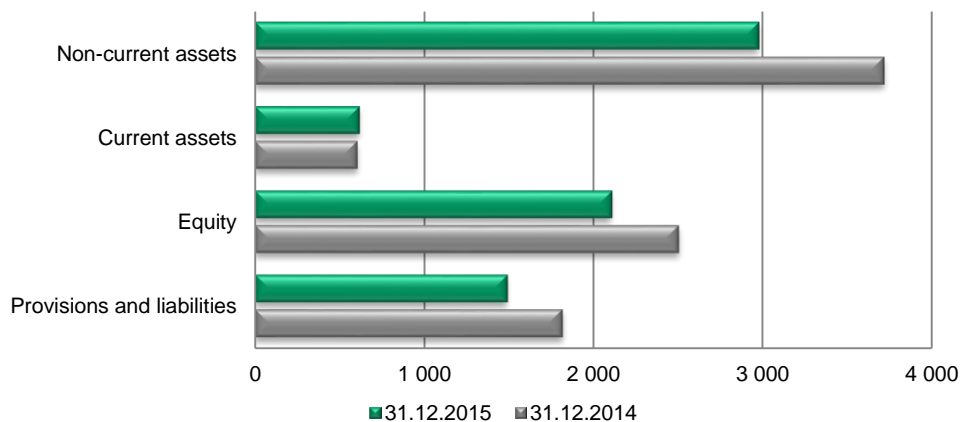
### Balance sheet

Selected financial data

[PLN '000]	31 Dec. 2014	31 Dec. 2015	Change
Total assets	4,322,983	3,594,729	-16.8%
ROA	6.7%	-7.0%	-13.7 p.p.
Non-current assets	3,717,831	2,978,573	-19.9%
Current assets	605,152	616,156	1.8%
Equity	2,505,468	2,105,890	-15.9%
ROE	11.0%	-12.1%	-23.1 p.p.
Provisions and liabilities	1,817,515	1,488,839	-18.1%

\* the calculations include the average level of assets and equity (as at 31 December 2015 + as at 31 December 2014)/2

Analysis of the annual consolidated statement of financial position



### Assets

The balance-sheet total as at 31 December 2015 went down to PLN 3,594,729,000 (i.e. by PLN 728,254,000) compared to the value as at 31 December 2014, with non-current assets going down by PLN 739,258,000 and current assets going up by PLN 11,004,000. Within current assets the value of inventories went down by 22.5%, trade and other receivables fell by 19.5%, while cash and cash equivalents went up by 39.3%.

As at 31 December 2015, ROA went down by 13.7 p.p. and equalled, at the balance-sheet date, -7.0%. The main reason of negative profitability is an impairment loss, created by the Company and already described, of property, plant and equipment and intangible assets (impact on the result before taxation of PLN -624,772,000).



### Equity and liabilities

The equity went down by 15.9%. It was mainly caused by recognising net total income in the amount of PLN -282,041,000 for the twelve months of 2015 and accounting for the result for 2014 (PLN 3.50 per share was appropriated for dividend, the rest increased the supplementary capital).

Provisions and liabilities went down by 18.1% compared to the value as at 31 December 2014, with current liabilities going down by 40.7% (trade liabilities as well as loans and borrowings decreased), and non-current liabilities going down by 5.1% (among others deferred tax assets decreased, while provisions for employee benefits and other benefits increased).

As at 31 December 2015, a decrease of 23.1 p.p. in return on equity compared to the end of 2014 was noted. The ratio as at 31 December 2015 was -12.1% compared to 11.0% as at 31 December 2014. The main reason of lower profitability is already noted impairment loss of property, plant and equipment and intangible assets.



Cash flow

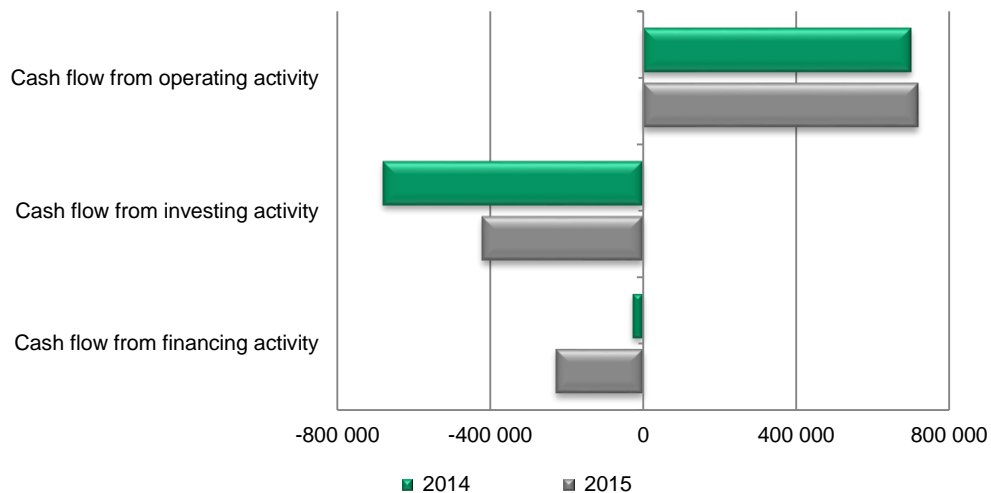
Cash flow

Annual separate cash flow

[PLN '000]	Q4 2014	Q4 2015	Change	2014	2015	Change
Cash flow from operating activity	143,251	222,116	55.1%	701,985	716,433	2.1%
Cash flow from investing activity	-280,642	-76,391	-72.8%	-680,762	-419,783	-38.3%
CFFO*	-137,391	145,725	-	21,223	296,650	1,297.8%
Cash flow from financing activity	-100,503	-123,439	22.8%	-26,858	-228,902	752.3%

\*total cash flow from operating and investing activity

Analysis of the annual separate statement of cash flows



In Q4 2015 the Company generated net cash flow from operating activities higher by 55.1% than in Q4 2014, in the period from 1 October 2015 to 31 December 2015 it amounted to PLN 222,116,000 compared to PLN 143,251,000 a year before. During four quarters the Company generated cash flow from operating activities of PLN 716,433,000 (+2.1% y-o-y). Cash flow from operating activities decreased its value (in absolute values) in Q4 2015 by 72.8% (to PLN 76,391,000) relative to the analogous period of 2014. Cumulative for 12 months of 2015 cash flow from operating activity was lower by 38.3% from cash flow from the analogous period last year.



### Debt and liquidity ratios

#### Debt and financing structure

##### Debt ratios

[PLN '000]	31 Dec. 2014	31 Dec. 2015	Change
Overall debt ratio	42.0%	41.4%	-0.6 p.p.
Ratio (debt plus employee liabilities)/EBITDA	1.38	1.40	1.4%
Ratio net debt/EBITDA*	0.85	0.68	-20.0%
Debt to equity ratio	72.5%	70.7%	-1.8 p.p.
Fixed capital to non-current assets ratio	95.1%	103.1%	8 p.p.
Current debt ratio	15.3%	10.9%	-4.4 p.p.
Non-current debt ratio	26.7%	30.5%	3.8 p.p.

\* Debt = non-current liabilities due to bonds issue + non-current loans and borrowings + short-term loans and borrowings

#### Overall debt ratio

The overall debt ratio as at 31 December 2015 went down by 0.6 p.p. compared to 31 December 2014 and reached 41.4% - the share of borrowed capital in the overall financing sources of the Company decreased.

The level of the Company's debts as at 31 December 2015 did not pose any risk to the Company's operation and its ability to settle liabilities in a timely manner. The Company's financial needs are subject to medium-term and long-term analyses in order to secure liquidity and a proper cash level.

#### Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q4 2015 increased to 1.4. When comparing data as at 31 December 2015 to 31 December 2014, EBITDA fell by less - in nominal terms (cumulatively for the last four quarters) – than the debt (including amounts payable to employees).

#### Ratio net debt/EBITDA

The ratio describing net debt (i.e. the total current and non-current liabilities less cash and equivalents) to EBITDA fell from 0.85 as at 31 December 2014 to 0.68 as at 31 December 2015. The value of debt dropped by ca. PLN 167 million with EBITDA falling by ca. PLN 63 million (EBITDA cumulatively for the last four quarters).

#### Debt to equity ratio

Debt to equity ratio as at 31 December 2015 decreased in relation to 31 December 2014 by 1.8 p.p. and was 70.7% - liabilities dropped by ca. PLN 329 million along with decrease in equity by ca. PLN 400 million.

#### Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 103.1% (as at 31 December 2015) compared to 95.1% (as at 31 December 2014) – in the analysed period the value of non-current assets dropped (in nominal terms) by a value higher than that recorded for fixed capitals (equity plus non-current liabilities less provisions for other liabilities and charges).

#### Liquidity ratios

##### Liquidity ratios

[days]	31 Dec. 2014	31 Dec. 2015	Change
Current liquidity ratio	1.03	1.98	92.2%
Quick liquidity ratio	0.81	1.65	103.7%

In the period covered by the separate annual financial statements, the liquidity ratios of the Company remained at a safe level, and the Company is not having any difficulties in settling its liabilities. Liquidity ratios are calculated based on current liabilities less provisions for the other liabilities and current charges.



## Turnover ratios

### Turnover ratios

Turnover ratios

[PLN '000]		31 Dec. 2014	31 Dec. 2015	Change
1. Inventory turnover	<u>average inventories</u> costs of products, goods and materials sold	29	21	-27.6%
2. Debtors collection rate*	<u>average receivables</u> revenue	49	52	6.1%
3. Creditors payment rate**	<u>average liabilities</u> costs of products, goods and materials sold	87	63	-27.6%
4. Operating cycle	1+2	78	73	-6.4%
5. Cash conversion cycle	4-3	-9	10	-

\* Trade debtors and other receivables

\*\* Trade creditors and other liabilities

### Inventory turnover

The inventory turnover ratio as at 31 December 2015 fell to 21 days, compared to the previous year. In year-on-year terms, an average level of inventories slightly decreased with a concurrent increase in costs of products, goods and materials sold (due to impairment loss of property, plant and equipment and intangible assets).

### Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 52 days (as at 31 December 2015), compared to 49 days (as at 31 December 2014). The increase in the ratio is a result of lower revenue.

### Creditors payment rate

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got shorter by 24 days to ca. 63 days, as compared to the end of 2014. In the period under analysis, the Company had a similar level of current trade creditors with higher costs of products, goods and materials sold (due to impairment loss).

### Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 73 days, compared to 78 days as at 31 December 2014. The time necessary for realising the Company's current assets got shorter by 5 days on the average.

### Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 31 December 2015 was 10 days (as at 31 December 2014 – 9 days). It should be noted that achieving a positive value of the ratio is a result of shortening the creditors payment rate (due to impairment loss), rather than deterioration of the Company's financial standing. The cash conversion cycle without taking into account the one-off impairment loss of non-current assets and intangible assets (regarding only the costs of products, goods and materials sold) would be - 8 days.





### Capitals, funds and sources of capital

#### Assessment of factors an untypical events affecting the operating profit

In 2015 no untypical factors and events occurred that may have influenced the Company's operations. Events that affected operations and financial results of LW Bogdanka S.A. in the financial year 2015 or which may have influence thereon in the following years have been described in other sections of the Report.

#### Capitals, funds and sources of capital

As at 31 December 2015, the Company's equity amounted to PLN 2,105,890,000.

Equity [PLN '000]		
<b>Ordinary shares</b>		<b>301,158</b>
<b>Other capital</b>		<b>1,757,070</b>
Including:		
<b>Supplementary capital</b>		<b>702,549</b>
<b>Other capital reserves,</b>		<b>1,054,521</b>
	including:	
Reserve capital		1,044,769
Equity on Management Options issuance		9,752
<b>Retained profits</b>		<b>47,662</b>
Including:		
Revaluation capital reserve		66,023
Other capitals – retained profits brought forward		263,917
Total net comprehensive income		-282,278

The share capital as at the end of 2015 amounted to PLN 301,158,000.

#### Supplementary capital:

In the course of transformation of the state-stock company, the supplementary capital was calculated at the level representing a difference between the sum of: founding and corporate funds and the share capital. In 2015 supplementary capital increased by PLN 153,894,000 as a result of distributing net profit for 2014.

As at 31 December 2015, the Company's supplementary capital amounted to PLN 702,549,000. As at 31 December 2015, the supplementary capital represented 33.4% of the share capital.

#### Other capital reserves:

As at 31 December 2015, the Company's other capitals amounted to PLN 1,054,521,000. In 2015 they increased by 0.2%.

#### Social Benefits Fund:

Company Social Benefits Fund is made annually from the basic write-off charged to the Company's operating expenses. In 2014 the Social Benefits Fund was increased by PLN 6,500,000 due to additional impairment loss. According to the Rules of the Company Social Benefit Fund, in the event of selling a summer holiday centre in Łazy, in the year in which the net amount on account of its sale is contributed to the social benefit fund, the basic write-off will decrease by the amount equal to the amount by which the fund increased as a result of the sale of the summer centre. However, the amount by which the basic write-off will decrease shall not be higher than the amount of the additional write-off and other income on account of partial payments from the employees for social activity and interests on funds on a bank account for loans granted from the Social Benefit Fund for housing purposes. This is a special purpose account, used in accordance with the Act on the Company Social Benefits Fund of 4 March 1994 (Dz.U. No. 70, item 335 of 1996, as amended) and the rules adopted by the Management Board. In relation to 2014, the fund decreased by PLN 418,590 and as at 31 December 2015 it amounted to PLN 10,666,770.

#### Mine Closure Fund

In compliance with Article 26c of the Geological and Mining Law of 4 February 1994 (uniform text Dz. U. [Journal of Laws] No. 228, item 1947, as amended), and the Ordinance of the Minister of Economy of 24 June 2002 on detailed rules of creating and functioning the mine closure fund (Dz. U. [Journal of Laws] No. 108 item 951), LW Bogdanka S.A. gathers funds for covering the costs of a liquidation of a mining plant, in a separate bank account. As at 31 December 2015 the value of those funds amounted to PLN 90,871,660. Increase in funds at the bank account results from an adjustment of payment made from mandatory annual write-offs for 2014 of PLN 79,250 and bank interest on funds deposited in the account of PLN 1,960,160.

Future deposits related to the closure of the mining plant are covered with a provision disclosed in the income statement and in the statement on financial position as an increase in the item "Property, plant and equipment".

The amounts of provisions are recognised in the present value of expenditures which are expected to be needed to discharge a given obligation.

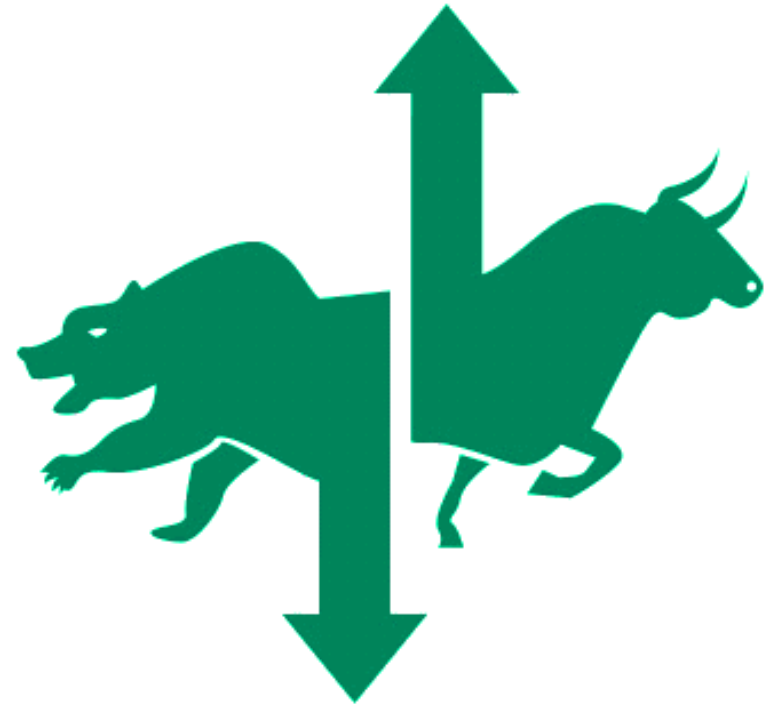
#### Assessment of factors an untypical events affecting the operating profit

In 2015, considering that there occurred circumstances indicating a possibility of a change in the recoverable value of the Company's non-current assets, the Management Board decided to carry out a test for impairment. As a result of the test, an impairment loss for assets was made in the amount of PLN 624,772,000. For more information please refer to the Financial Statements of LW Bogdanka S.A., Note 6.3.

Except for the above, in 2015 no untypical factors and events occurred that may have influenced the Company's operations.

#### Overview of significant off-balance sheet items of LW Bogdanka S.A. in subjective, objective and value terms

In 2015 no material off-balance sheet items occurred.



## 4. Shares and shareholding





## Share capital structure and shareholding

### Share capital structure

The Company's share capital amounts to PLN 170,067,950 (one hundred and seventy million, sixty-seven thousand, nine hundred and fifty zloty) and is divided into 34,013,590 (thirty-four million, thirteen thousand, five hundred and ninety) shares with a par value of PLN 5 (five zloty) per share.

On 4 January 2012, a total of 3,208,111 employee shares were introduced to the Warsaw Stock Exchange, and 34,754 employee shares were introduced on 4 February 2013. LW Bogdanka S.A.'s public float totals 34,013,455 shares. As at the date of publishing this Report, the remaining 135 shares are registered shares.

The total number of votes resulting from all of the issued shares of the Issuer corresponds to the number of shares and equals 34,013,590 votes.

At present, LW Bogdanka S.A. is a private company. The Company has a strategic majority shareholder. The majority shareholder is the Enea Group which holds a majority block of shares which accounts for 66% of the shares in LW Bogdanka S.A. (the majority shareholder's block of shares totals 22,448,834 shares, which corresponds to a nominal value of PLN 112,244,170). Other shareholders of the Company are mainly financial investors in the form of pension funds.

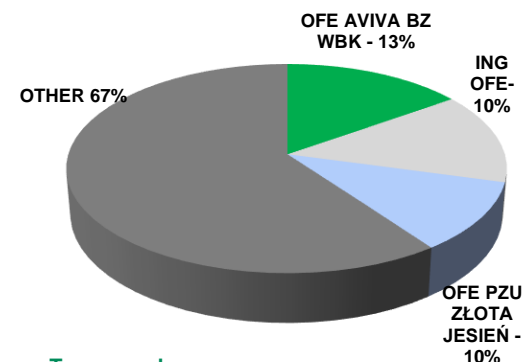
### Shareholding structure

The table below shows a shareholding structure of LW Bogdanka S.A. as at 31 December 2015 and as the date of publishing this Report, i.e. 21 March 2016.

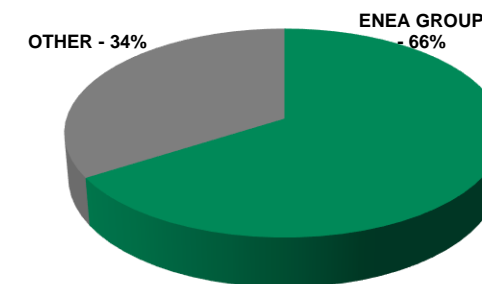
Shareholder	Number of shares/ number of shares at the Shareholders Meeting	Share capital interest/ interest in the total number of votes
The Enea Group	22,448,834	66.0%
Other	11,564,756	34.0%
TOTAL	34,013,590	100.0%

The graphs below present the shareholding structure of LW Bogdanka S.A. as at 31 December 2014, as at 31 December 2015 and as at the date of publishing this Report, i.e. 21 March 2016.

Shareholding of LW Bogdanka S.A. as at 31 December 2014



Shareholding of LW Bogdanka S.A. as at 31 December 2015 and as at 21 March 2016



### Treasury shares

LW Bogdanka S.A. or subsidiary companies of the LW Bogdanka Group did not acquire any treasury shares in 2015.

### Changes in the shareholding structure by the date of the Report

The Company is not aware of any changes in the structure of major shareholders of the Company since the date of publishing the extended consolidated report for the third quarter of 2015.

### Potential changes in the shareholding structure

The Company is not aware of any agreements or events that would result in future changes in the proportion of shares held by the existing Shareholders.



### Changes in shareholding structure at LW Bogdanka S.A. in 2015

#### Holdings of shares in LW BOGDANKA S.A. as well as shares in related entities of the Company by the management and supervision personnel of LW BOGDANKA S.A.

The table below presents the total number and nominal value of shares of LW BOGDANKA S.A. as well as shares in related entities of LW BOGDANKA S.A. held by the management and supervision personnel of LW BOGDANKA S.A., as of the date of submitting the Report and as of the date of publishing the previous interim report:

MANAGEMENT BOARD					
Name and surname	Number of Company shares as at 21 March 2016	Nominal value of the shares (PLN)	Number of Company shares as at 29 October 2015	Nominal value of the shares (PLN)	Number of shares in subsidiary companies
Zbigniew Stopa	1,414	7,070	1,414	7,070	0
Piotr Janicki	0	0	-	-	0
Waldemar Bernaciak	536	2,680	536	2,680	0
Jakub Stęchły	0	0	-	-	0
SUPERVISORY BOARD					
Name and surname	Number of Company shares as at 21 March 2016	Nominal value of the shares (PLN)	Number of Company shares as at 29 October 2015	Nominal value of the shares (PLN)	Number of shares in subsidiary companies
Szymon Jankowski	0	0	-	-	0
Magdalena Kaczmarek	0	0	-	-	0
Mirosław Kowalik	0	0	-	-	0
Przemysław Krasadomski	0	0	-	-	0
Wiesław Piosik	0	0	-	-	0
Michał Stopyra	0	0	0	0	0
TOTAL	Number of Company shares as at 21 March 2016	Nominal value of the shares (PLN)	Number of Company shares as at 29 October 2015	Nominal value of the shares (PLN)	Number of shares in subsidiary companies
	1,950	9,750	1,950	9,750	0

\*According to declarations of the Members of the Management Board and the Supervisory Board

#### Shares in the Company's related companies

Members of the Management Board and the Supervisory Board do not hold shares in the Subsidiaries:

- Łęczyńska Energetyka sp. z o.o.
- EkoTRANS Bogdanka sp. z o.o.
- RG Bogdanka sp. z o.o.
- MR Bogdanka sp. z o.o.

#### Possible changes in the shareholding structure

On 4 July 2013 the Annual Extraordinary Shareholders Meeting of LW Bogdanka S.A. under the Management Option Scheme adopted Resolution No. 26 on issuing up to 1,360,540 Series A registered subscription warrants.

In addition to the above scheme, the Company is not aware of agreements and events as a result of which changes could occur in the proportions of shares held by the existing Shareholders.

## Dividend policy

### Dividend policy

The dividend policy forming part of the approved Strategy for the 2013-2015 period provides for the payout to Company shareholders of a dividend standing at 60% of the consolidated net profit.

The adoption of such dividend payout ratio will allow the Company, on the one hand, to finance development investments using part of the net profit, while on the other hand it will guarantee the shareholders a rate of return on the investment in Company shares in the form of an above-average dividend for the coal-mining sector.

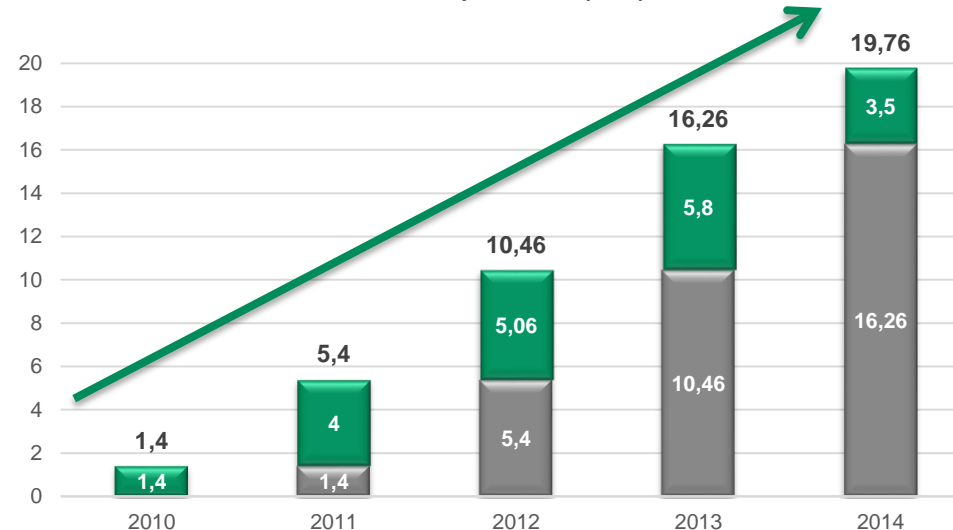
The change in the Management Boards recommendation with regard to the dividend payout ratio can be attributed to the change in the assumptions concerning:

- Company development and further expansion plans;
- execution of the adopted investment programme;
- plans to maintain adequate cash flow;

as well as:

- net profit recorded in the Company's separate financial statements;
- projected investment expenditure and other capital outlays;
- current possibilities and costs of obtaining debt financing;
- decision taken by the General Shareholders Meeting establishing a dividend payout rate different to that recommended by the Management Board;
- other factors having significant impact on the Company's financial standing.

Accumulated dividend per share (PLN) for 2010 - 2014



### Dividend paid out of profit for 2009-2014 (data not restated)

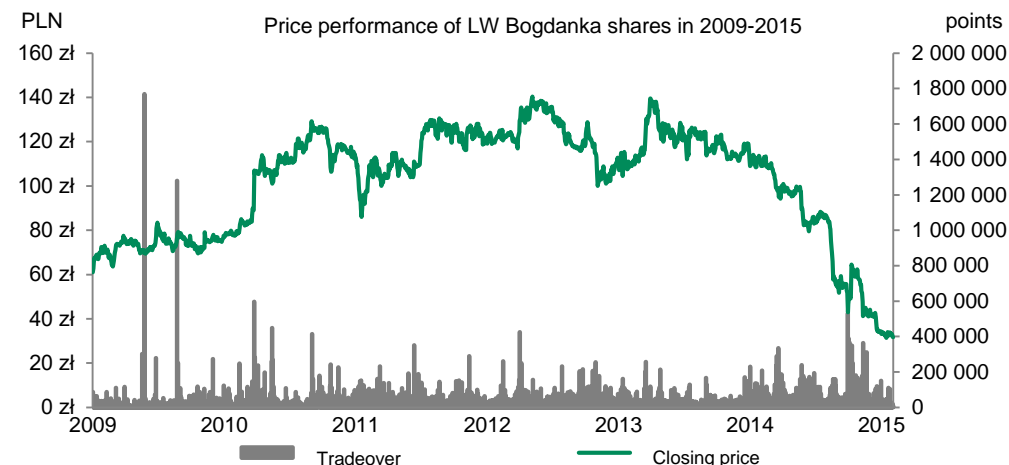
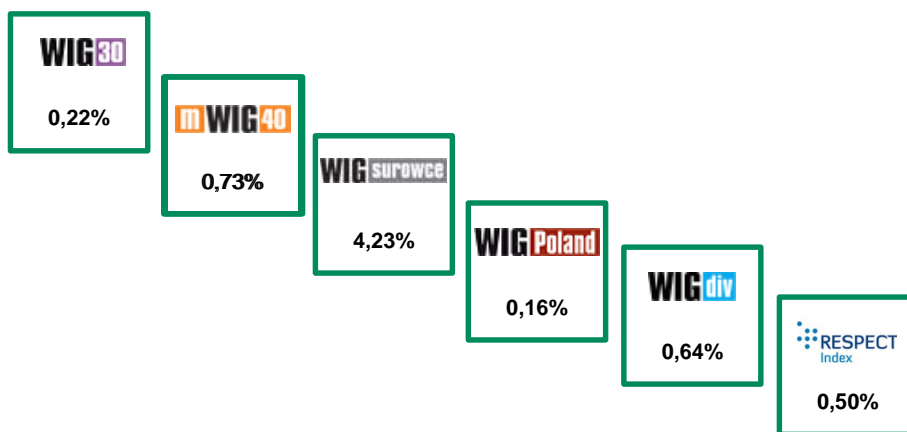
Item	2009	2010	2011	2012	2013	2014
Net profit (separate) [PLN million]	192.1	227.4	219.0	287.0	326.5	272.9
Total dividend [PLN million]	-	47.6	136.1	172.1	197.3	119.0
Dividend per share [PLN]	-	1.40	4.00	5.06	5.80	3.50
Earnings per share [PLN]	5.65	6.69	6.44	8.44	9.60	8.02
Dividend payment rate	-	20.9%	62.1%	60.0%	60.4%	43.6%
Dividend rate	-	1.35%	2.94%	4.02%	6.01%	10.54%

## Price performance of the shares of LW Bogdanka S.A. on the Warsaw Stock Exchange

LW Bogdanka S.A. was first listed on the Warsaw Stock exchange on 25 June 2009. In 2015, the Company made part of the following indices:

- WIG – includes all companies listed on the WSE Main Market that meet the baseline criteria of the participation in indices;
- WIG20 – includes the 20 largest companies listed on the WSE Main Market. On 18 December 2015, the Company was removed from the WIG20 due to insufficient liquidity of its shares in connection with the acquisition of a majority stake by Enea S.A.;
- WIG30 – includes the 30 largest companies listed on the WSE Main Market;
- mWIG40 – includes 40 medium-sized companies listed on the WSE Main Market. The Company has been present in this index since 18 December 2015;
- WIG Surowce – includes companies classified into the “Raw Materials” sector;
- WIG-Poland – includes only the shares of domestic companies listed on the WSE Main Market that meet the baseline criteria of participation in indices;
- WIGdiv – includes 30 companies that are in the top 150 in the index ranking (prepared on the basis of Resolution No. 871/2013 of the WSE Management Board, as amended) and show the highest dividend yield at the end of November each year and have paid dividends at least three times in the last 5 financial years;
- Respect Index – index of socially responsible companies.

### Participation of the Company’s shares in indices as at 21 March 2016



Key share indicators:	2014	2015
Maximum price [PLN]	128.50	100.85
Minimum price [PLN]	95.03	31.40
Last price [PLN]	96.46	33.21
Capitalisation at end of period [PLN million]	116.20	67.23
Book value [PLN million]	3 281	1 130
Price/earnings ratio	2,505.47	2,105.89
Price/book value	12.02	-4.06
Rate of return at end of period [%]	1.31	0.54
Dividend rate [%]	-24.60	-65.40
Turnover [PLN million]	6.01	10.54
Share in turnover [%]	5,362.46	5,598.60
Turnover ratio [%]	47 482	88 082
Average volume per session	586	921
Average number of transactions per session	34,013,590	34,013,590
Average spread [bp]	128.50	100.85
Volume [no. of shares]	95.03	31.40



## Investor relations – how we do it

Investor relations are a key component of consistent and integrated corporate communication for LW Bogdanka S.A. This communication, and the associated channels and tools, are adapted to the needs of particular audiences, while staying true to the principle of equal access to information.

**LW Bogdanka S.A. complies with best market practices**

In 2015, we took the following steps as part of the investor relations plan:

- We participated in:
  - WallStreet Conference organised by the Association of Individual Investors,
  - Professional Investor Conference
  - Investor Relations Congress,
  - EuroPOWER Conference ("Shares in the Power Industry"),
  - "Utilities, Mining & Industrials" - ING Securities,
  - Polish Capital Market London 2015 Conference – PKO BP,
  - Conference for Institutional Investors in Zürich – Raiffeisen Centroank,
  - Energy and Mining Conference – UniCredit,
  - Other conferences and meetings with individual and institutional investors in Poland and abroad.
- We were at the disposal of investors from early morning to late in the evening – for phone calls, e-mails and face-to-face meetings.
- Every quarter, we met the participants of the capital market at performance conferences.
- Every quarter, we met investor chats dedicated to individual investors.
- Every quarter, we organised conference calls for foreign investors.
- We ensured that the Investor Relations tab on the corporate website of LW Bogdanka S.A. was providing the most updated information.
- For every important event we published on our website a dedicated investor presentation and key financial and operating data in a user-friendly format.

We have been awarded the "10 out of 10 – Investor-Friendly Company" certificate by the Association of Individual Investors.

We have participated in the preparation of professional courses for the Civic Shareholding campaign.

We have been shortlisted for stage 2 of the Golden Website Contest.

We have been awarded the Economic Award of the President of Poland.

For the 8th time we have been listed on the Respect Index (9th edition).



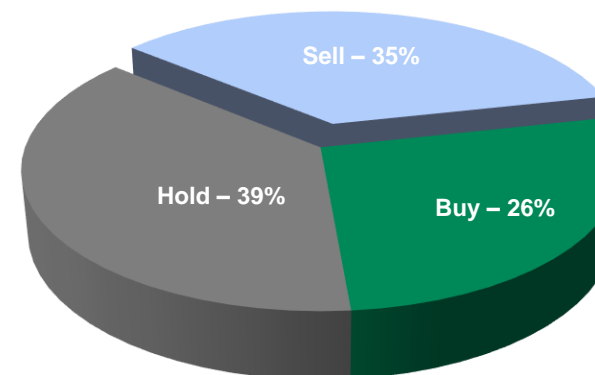
Analysts recommendations

Analysts recommendations issued for LW Bogdanka in 2015:

Date	Institution	Recommendation	Target price	Price on the recommendation date
19 January	DM BOŚ	Sell	91.10 zł	98.00 zł
26 January	mBank	Buy	121.50 zł	99.00 zł
2 February	DM TRIGON	Buy	133.00 zł	96.80 zł
4 February	BZ WBK	Buy	130.00 zł	96.40 zł
5 February	Societe Generale	Buy	131.00 zł	96.70 zł
12 February	Raiffeisen CENTROBANK	Buy	119.00 zł	97.20 zł
26 February	Deutsche Bank	Sell	88.00 zł	98.24 zł
5 March	Citi Research	Buy	103.00 zł	89.50 zł
5 March	Erste Group Research	Hold	88.70 zł	89.50 zł
5 March	Societe Generale	Buy	104.00 zł	89.50 zł
9 March	DM TRIGON	Sell	80.00 zł	88.94 zł
12 March	Deutsche Bank	Hold	83.00 zł	83.00 zł
19 March	PEKAO Investment Banking	Hold	86.00 zł	82.50 zł
31 March	Deutsche Bank	Hold	83.00 zł	83.60 zł
7 April	Raiffeisen CENTROBANK	Buy	109.00 zł	85.85 zł
15 April	BZ WBK	Hold	86.30 zł	83.78 zł
24 April	J.P. Morgan Cazenove	Hold	98.00 zł	86.55 zł
24 April	DM Trigon	Sell	80.00 zł	83.50 zł
30 April	PEKAO Investment Banking	Hold	86.00 zł	88.40 zł
21 May	Societe Generale	Hold	92.00 zł	85.40 zł
29 May	PKO BP	Hold	90.00 zł	85.40 zł
11 June	Deutsche Bank	Hold	69.00 zł	69.85 zł
12 June	DM Trigon	Sell	58.00 zł	66.00 zł
15 June	Erste Group Research	Sell	44.10 zł	66.00 zł
15 June	WOOD Research	Buy	75.00 zł	62.00 zł
16 June	DM BOŚ	Sell	52.00 zł	59.40 zł
17 June	Societe Generale	Hold	64.00 zł	57.70 zł
6 July	PEKAO Investment Banking	Hold	61.00 zł	57.20 zł
7 July	Deutsche Bank	Hold	65.00 zł	54.00 zł
8 July	BESI Research	Sell	40.20 zł	55.97 zł
23 July	DM TRIGON	Sell	52.00 zł	55.35 zł
23 July	J.P. Morgan Cazenove	Hold	59.00 zł	53.61 zł

In 2015 26% of analysts recommended "BUY", and 39% - "HOLD" shares of LW Bogdanka

Recommendations issued to LW Bogdanka S.A. from 1 January 2015 to 31 December 2015



Date	Institution	Recommendation	Target price	Price on the recommendation date
24 August	BZ WBK	Sell	27.90 zł	53.13 zł
25 August	Societe Generale	Sell	35.00 zł	37.40 zł
25 August	BESI Research	Sell	23.87 zł	37.37 zł
26 August	IPOPEMA Securities	Buy	49.90 zł	35.20 zł
28 August	DM BDM S.A.	Buy	45.86 zł	37.80 zł
4 September	PKO BP	Hold	46.90 zł	49.75 zł
16 September	Raiffeisen CENTROBANK	Hold	66.40 zł	66.04 zł
25 September	Haitong Research	Sell	31.94 zł	62.30 zł
29 September	Deutsche Bank	Hold	60.00 zł	61.94 zł
28 September	DM BOŚ	Sell	48.50 zł	59.94 zł
27 October	Societe Generale	Sell	47.40 zł	55.40 zł
30 October	Haitong Research	Sell	29.56 zł	47.70 zł
5 November	Citi Research	Buy	55.00 zł	42.20 zł
31 December	ING	Hold	34.00 zł	34.20 zł



## 5. Governing bodies



### Management Board of LW Bogdanka S.A.

#### Zbigniew Stopa

President of the Management Board

Zbigniew Stopa graduated in 1984 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree, specialising in Deposits Exploitation Technology. In 1997 he completed postgraduate studies at the Central Mining Institute in Katowice in the field of Occupational Health and Safety Management. He attended a wide range of training sessions and specialist courses (the fundamentals of economics, human resource management, finance for managers) as well as completed a course for supervisory board members of State Treasury companies.

Zbigniew Stopa's career has always been connected with LW Bogdanka S.A. and its legal predecessors. In 1984-1985 he underwent a training program underground, while from 1985 to 1987 he worked as an underground overman. In 1987 he was appointed to the position of an underground shift foreman, and towards the end of that year, to the position of an underground section foreman. In 1991-2006 he worked as an underground chief foreman. From May to December 2006 he served as the Manager of Mining Works of Nadrybie mining field. On 15 December 2006 he was appointed Vice-President of the Management Board - Production Director. On 27 September 2012, Mr Zbigniew Stopa was entrusted, by the Supervisory Board, with the task of acting President of the Management Board, and since 23 November 2011 Mr Zbigniew Stopa has been holding the position of the President of the Management Board of LW Bogdanka S.A.

Zbigniew Stopa holds the following qualifications approved by the State Mining Authority: head of the mining works department (1997), higher-rank mining supervisor (1991). In 2007 he was appointed a member of the Mining Occupational Health and Safety Committee affiliated with the State Mining Authority in Katowice by the President of the State Mining Authority.



#### Piotr Janicki

Vice-President of the Management Board, Economic and Financial Affairs

Since 2013, he has been responsible for financial affairs at Enea Wytwarzanie. Present in the power industry for fourteen years. For six years, he was a Member of the Management Board and Chief Financial Officer at the Białystok Heat & Power Plant. During that time, he gained experience in managing a company that operates in the power production industry, with particular focus on managing the company's financial affairs. He participated in a process of deep restructuring of the Białystok Heat & Power Plant, which led to a material improvement in the Company's economic efficiency ratios. On 23 November 2015, he was appointed by the Supervisory Board of LW Bogdanka to the position of the Vice-President of the Management Board, Economic and Financial Affairs.

He obtained an MA Diploma from the Faculty of Economics at the University of Białystok, as well as a Postgraduate Diploma in International Accounting Standards / International Financial Reporting Standards from the Kozłowski University in Warsaw. In November 2015 appointed to the position of Vice-President of the Management Board, Economic and Financial Affairs.



#### Waldemar Bernaciak

Vice-President of the Management Board, Trade and Logistics

Waldemar Bernaciak graduated in 1979 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree in mining and geology, specialising in Mine Design and Construction. In 1999 he completed postgraduate studies in the field of management and logistics and received a diploma of the University of Illinois at Urbana – Champaign. In 2001 he graduated from the School of Controlling in Katowice. Furthermore, he attended a number of specialist training courses (including a course on planning and production management in a coal mine at the Silesian University of Technology, logistics, materials management and stock optimisation). He also completed a course for supervisory board members of State Treasury companies.

From the outset his career has been in the mining industry. From 1979 to 1997 he was employed by Kombinat Budownictwa Górniczego WSCHÓD and its legal successors, where he held various positions, starting with a trainee miner, through an overman, shift foreman, section foreman, senior mining, engineering and construction specialist to the chief foreman (deputy mining works manager). For a decade, from 1997, he served as the Head of Materials and Machine Management Department at LW Bogdanka S.A., while from February to August 2007 as the Head of Logistics. In August 2007 he was appointed Vice-President of the Management Board - Director for Mine Expansion, Trade and Logistics. Next, for several months he served as the acting President of the Management Board – Managing Director. On 16 February 2008 he returned to the position of Vice-President of the Management Board - Director for Mine Expansion, Trade and Logistics. In October 2008 he was appointed Vice-President of the Management Board, Trade and Logistics and has held that position ever since.



#### Jakub Stęchły

Vice-President of the Management Board, Procurement and Investments

He graduated from the Silesian University of Technology in Gliwice in the following areas: Automation and Robotics, Electronics and Telecommunications, Computer Science, as well as from the Polytechnic University of Milan in Management, Economics and Industrial Engineering. Mr Jakub Stęchły also obtained a Postgraduate Diploma in Business Value Development and Business Valuation from the University of Dąbrowa Górnicza. Furthermore, he obtained the Energy Innovation and Emerging Technologies Certificate from Stanford University. He completed a number of expert courses and training sessions.

Since March 2015, he has been the President of the Management Board of ENEA Serwis sp. z o.o. Present in the power industry since 2011 when he took up work at TAURON Polska Energia S.A. Then, in March 2014, he became the Strategic Controlling Office Manager at ENEA S.A. in Poznań, where he was, among other things, responsible for formulating investment plans at the Group level. In his professional career, he controlled and participated in numerous key undertakings relevant to both the Company managed and the entire Group.







### Management Board of LW Bogdanka S.A.

Date	Event
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The Supervisory Board of LW Bogdanka S.A. removed from the Management Board of LW Bogdanka S.A.:

- Zbigniew Stopa – President of the Management Board
- Waldemar Bernaciak - Vice-President of the Management Board, Trade and Logistics
- Yves Marie Gerard Roger de Bazelaire de Boucheporn - Vice-President of the Management Board, Economic and Financial Affairs
- Krzysztof Szlaga - Vice-President of the Management Board, Procurement and Investments.

#### 23 November 2015

The Supervisory Board of LW Bogdanka S.A. appointed to the Management Board of LW Bogdanka S.A. for the 9th term of office:

- Zbigniew Stopa - President of the Management Board
- Waldemar Bernaciak - Vice-President of the Management Board, Trade and Logistics
- Piotr Janicki - Vice-President of the Management Board, Economic and Financial Affairs
- Jakub Stęchły - Vice-President of the Management Board, Procurement and Investments.

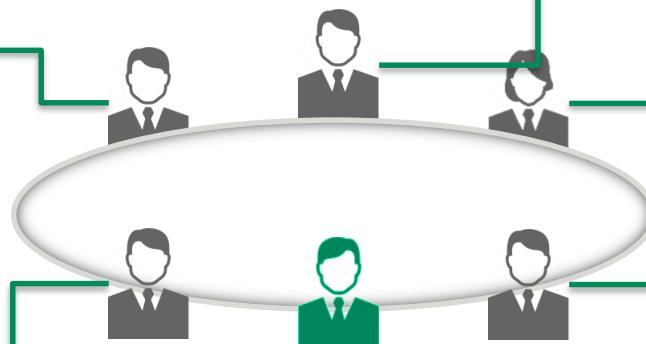




## Supervisory Board of LW Bogdanka S.A. as at 21 March 2016

### 17% - independent members in the Supervisory Board of LWB

### 17% - women in the Supervisory Board of LWB



#### Szymon Jankowski

**Secretary of the Supervisory Board**

**Appointed on: 23 February 2016**

Szymon Jankowski graduated from the Academy of Economics in Poznań (currently Poznań University of Economics), where he completed studies in management and marketing at the Faculty of Management. He is also a graduate of post-graduate studies at the Poznań University of Economics in commercial law, as well as post-graduate studies at the WSB University in Poznań in renewable energy sources. He further developed his qualifications through training courses in corporate governance and corporate financial analysis. He also successfully completed a course for candidates for members of Supervisory Boards in State Treasury companies, and obtained the relevant diploma.

Szymon Jankowski has been present in the professional power sector for more than 21 years. He started his career in 1994 in Rejon Dystrybucji Leszno (Leszno Distribution Region) owned by Energetyka Poznańska S.A., and worked there until 1999 as the head of finance and accounting team. Since 1999 until now, he has worked in various corporate governance positions within the ENEA Group, recently as the Corporate Governance Coordinator.

He has experience in supervising companies in the energy, service and IT sectors. He has seated in Supervisory Boards in such companies as ENEA Operator Sp. z o.o., ENEA Centrum Sp. z o.o., BHU S.A., Energetyka Poznańska Zakład Transportu Sp. z o.o., and ITSERWIS Sp. z o.o.

#### Przemysław Krasadomski

**Member of the Supervisory Board**

**Appointed on: 23 February 2016**

Przemysław Krasadomski graduated from the Adam Mickiewicz University in Poznań, where he completed studies in law at the Faculty of Law and Administration. He also completed training for legal advisors at the District Chamber of Legal Advisors in Poznań, and was entered in the register of legal advisors kept by the Council of the District Chamber of Legal Advisors in Poznań. In 2002, he successfully completed a course for candidates for members of Supervisory Boards in State Treasury companies, and obtained the relevant diploma.

He has worked for ENEA since 2008; starting as a legal advisor in the Corporate Department. At present, he is employed in the position of legal advisor at ENEA S.A. and Manager of Ongoing Legal Services Office of ENEA Centrum. Since 19 February 2016, he has worked as acting Director of Legal Department at ENEA Centrum. Earlier, he worked for gas companies in a legal advisory capacity.

He is experienced in supervising companies. He has seated in the Supervisory Boards of such companies as PFK S.A. in liquidation, EP BUT S.A. and ENEA Centrum Sp. z o.o.

#### Mirosław Kowalik

**Chairman of the Supervisory Board**

**Appointed on: 23 February 2016**

Mirosław Kowalik has been present in the energy sector for more than 20 years. He has held management positions on operational and strategic levels. In 2015, he managed SNC Lavalin Sp. z o.o. Polska as a Vice President of the Management Board and Director for Business Development. Between 1999 and 2015, he held various managerial positions within the ALSTOM Power Group, including his most recent role as the Sales and Marketing Director. Between 1995 and 1998, he worked for ABB. On 7 January 2016 appointed to the position of the President of the Management Board of ENEA S.A.

Mirosław Kowalik is a graduate of the Faculty of Electrical Engineering at the Gdynia Maritime University. He completed MBA studies in management (programme of the Rotterdam School of Management in cooperation with the University of Gdańsk and the Gdańsk Foundation for Management Development), and was given the title of Executive Master of Business Administration. He has also completed post-graduate studies in corporate finance management at the Warsaw School of Economics. He is currently pursuing the Executive Doctor of Business Administration programme at the Institute of Economics of the Polish Academy of Sciences.

#### Wiesław Piosik

**Deputy Chairman of the Supervisory Board**

**Appointed on: 23 February 2016**

Wiesław Piosik has been present in the professional power sector for more than 30 years. Recently he has managed private enterprises operating in Energy distribution, grid design and grid performing as well as renewable energy sectors. In 1998-2005 he was a member, and subsequently the President of the Management Board of Energetyka Poznańska S.A. (currently: Enea S.A.), and in 2007-2009 he was the President of the Management Board of Polenergia Dystrybucja sp. z o.o. Wiesław Piosik has extensive experience in supervising companies in the fuel and energy sector, as well as in the banking and IT sectors. He seated in the Supervisory Boards of such companies as Kompania Węglowa S.A., CIECH S.A., Exatel S.A. and LG Petro Bank. On 7 January 2016 appointed to the position of the Vice-President of the Management Board of ENEA S.A., Corporate Affairs

Wiesław Piosik is a graduate of the Poznań University of Technology where he completed studies at the Faculty of Electrical Engineering with major in electrotechnology and specialism in electrical power engineering. He has also completed post-graduate studies at the Poznań University of Technology with major in electrical power engineering systems and networks in the process of transition to a market-based economy, as well as post graduate studies in marketing at the Academy of Economics in Poznań (currently Poznań University of Economics). He further developed his qualifications by attending a number of training courses in management.

#### Magdalena Kaczmarek

**Member of the Supervisory Board**

**Appointed on: 16 November 2015**

Magdalena Kaczmarek – Director of Controlling Department at Enea S.A. She has extensive experience on management positions in controlling and accounting departments in power and services sectors. She graduated from the Faculty of Law at the Adam Mickiewicz University in Poznań.

#### Michał Stopyra

**Member of the Supervisory Board**

**Appointed on: 18 June 2015**

Michał Stopyra graduated from the AGH University of Science and Technology, where he completed studies at the Mining Faculty with specialism in Underground Mining and obtained the degree of Doctor of Engineering. He started his professional career in mines in Poland and Norway, which was then followed by scientific work at the Mining Faculty of the AGH University of Science and Technology. Michał Stopyra since 1993 has been involved in consulting activity focused on industrial cooperation. His career included such positions as an expert at the Provincial Mining Authority, consultant to mining equipment manufacturers as well as mining works manager in domestic and international projects (Germany, Czech Republic, Spain, Columbia, Russia).

In 2000-2012 Michał Stopyra was a member of the Supervisory Board in TEGONA S.A. in Katowice. From 2013, he has been acting as a member of the Supervisory Board of Bogdanka S.A.



Supervisory Board of LW Bogdanka S.A.

Date	Event
18 June 2015	<p>Considering the end of the 8th term of office, the Annual General Shareholders Meeting of LW Bogdanka S.A. appointed to the new Supervisory Board the following persons, each for an individual term of office of three years:</p> <ul style="list-style-type: none"> <li>• Witold Daniłowicz</li> <li>• Eryk Karski</li> <li>• Stefan Kawalec</li> <li>• Raimondo Eggink</li> <li>• Robert Bednarski</li> <li>• Dariusz Formela</li> <li>• Tomasz Mosiek</li> <li>• Michał Stopyra.</li> </ul>
16 November 2015	<p>The Extraordinary General Shareholders Meeting removed the following persons:</p> <ul style="list-style-type: none"> <li>• Witold Daniłowicz</li> <li>• Eryk Karski</li> <li>• Stefan Kawalec</li> <li>• Raimondo Eggink</li> <li>• Robert Bednarski</li> <li>• Dariusz Formela</li> <li>• Tomasz Mosiek.</li> </ul> <p>The Extraordinary General Shareholders Meeting appointed the following persons:</p> <ul style="list-style-type: none"> <li>• Dalida Gepfert</li> <li>• Paweł Orłof</li> <li>• Magdalena Kaczmarek</li> <li>• Bartosz Krysta</li> <li>• Krzysztof Matan</li> </ul>
8 December 2015	Paweł Orłof resigned from his function at the Supervisory Board of LW Bogdanka.
14 January 2016	Dalida Gepfert resigned from her function at the Supervisory Board of LW Bogdanka.
23 February 2016	<p>The Extraordinary General Shareholders Meeting removed the following persons:</p> <ul style="list-style-type: none"> <li>• Bartosz Krysta</li> <li>• Krzysztof Matan.</li> </ul> <p>The Extraordinary General Shareholders Meeting appointed to the Supervisory Board the following four persons, each for an individual term of office of three years:</p> <ul style="list-style-type: none"> <li>• Szymon Jankowski</li> <li>• Mirosław Kowalik</li> <li>• Przemysław Krasadomski</li> <li>• Wiesław Piosik</li> </ul>





## Rules of appointment and remuneration; salary levels

### Rules of appointment and description of powers of the governing bodies of the parent company

Detailed information can be found in Chapter 6. Corporate Governance on pages 81-85.

### Rules of remuneration

The rules of remuneration of the current Members of the Management Board of LW Bogdanka S.A. were introduced under the Resolutions of the Supervisory Board of LW Bogdanka S.A. of 23 November 2015. All Members of the Management Board entered with the Company into Service Agreements – Management Contracts, referred to in Article 3.2 of the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Dz.U. [Journal of Laws] No. 26, item 306, as amended). The Service Agreements, and the Non-Compete Agreements attached thereto, signed by the Company stipulate that:

- during the term of the Service Agreement, Members of the Management Board are entitled to a fixed monthly salary and performance-based annual bonus in the amount of 50% of total annual remuneration, calculated in accordance with the specific rules laid down in the Service Agreement;
- in return for compliance with the non-compete obligations during the non-compete period, Members of the Management Board are entitled to compensation in the total amount equal to their fixed monthly salary multiplied by the number of months in the non-compete period;
- In the event of expiry of the Service Agreement as a result of expiry of the mandate of Member of the Management Board, the Company is entitled to demand, for one month from expiry of the Agreement, that Members of the Management Board provide services in connection with the handover of the affairs associated with running of the Company to a person appointed by the Chairman of the Supervisory Board. Members of the Management Board are entitled to remuneration for this, in the amount of the fixed salary.
- Members of the Management Board are entitled to severance pay in the amount equal to three times the monthly fixed salary, except where:
  - the Service Agreement is terminated by the Company or it expires as a result of dismissal from the position of Member of the Management Board for a culpable material breach of the provisions of the Articles of Association or the Service

- Agreement, resulting in harm to the Company;
- the Service Agreement is terminated by the Company or it expires as a result of losing the right to hold the position of Member of the Management Board in the cases specified in Article 18 of the Commercial Companies Code;
- the Service Agreement is terminated by the Member of the Management Board or it expires as a result of resignation from the position, unless the termination of the Agreement or the resignation took place by fault of the Company;
- the Agreement expires as a result of expiry of the mandate of Member of the Management Board at the end of the term of office for which the Member had been appointed, if the Member does not wish to be appointed to the Management Board for another term of office;
- the Agreement is terminated by the Member of the Management Board or it expires as a result of dismissal from the position or expiry of the mandate for other reasons, and the Member is then appointed to the management board of the Company or other Enea S.A. Group company.

In the event of violation of the non-compete obligation by Member of the Management Board, they shall lose the right to receive any further instalments of the compensation and shall pay liquidated damages to the Company. The Company has the right to terminate the Non-Compete Agreement if the prerequisites for the prohibition of competition cease to exist.

All executive personnel have taken out, at their own expense, third-party liability insurance in case of non-performance or improper performance of the Management Contract.

Members of the Management Board may be awarded, depending on the assumed KPI levels, an annual bonus.

Remuneration of Members of the Supervisory Board was defined by Resolution No. 3 of Extraordinary Shareholders Meeting of LW Bogdanka S.A. of 16.11.2015 as once the amount of average monthly salary in the corporate sector, excluding payments from profit, in the fourth quarter of 2009. In addition, certain representatives of the Enea Group in the Supervisory Board are entitled to a fixed flat-rate monthly salary in the amount of PLN 1 for each month of holding a seat on the Supervisory Board, irrespective of the particular function.

### Salary levels Management Board

In 2015, The total gross remuneration paid to the Members of the Management Board by the Company amounted to PLN 4.589.101,69. For fulfilling their duties, Members of the Management Board received remuneration under an Employment Contract and the Service Agreement:

Full name	Remuneration
Zbigniew Stopa	PLN 1.377.460,28
Yves Marie Gerard Roger de Bazelaire de Boucheporn	PLN 1.064.387,39
Krzysztof Szlaga	PLN 988.373,68
Waldemar Bernaciak	PLN 1.058.880,34
Piotr Janicki	PLN 50.000,00
Jakub Stęchły	PLN 50.000,00

In 2015, Members of the Management Board of LW Bogdanka S.A. did not receive remuneration for holding functions in the subsidiaries of LW Bogdanka S.A..

In 2015, the total gross remuneration paid by the Company to its proxies amounted to PLN 1.604.621,37. For fulfilling their duties for the Company, proxies received remuneration under an Employment Contract only.

### Supervisory Board

Members of the Supervisory Board are entitled to a monthly salary in the amount specified by the General Shareholders Meeting. The Company covers the costs incurred in connection with the performance of duties bestowed upon Members of the Supervisory Board, in particular the cost of travel to a meeting of the Board, the cost of personal development, and the cost of meals and accommodation.



## Rules of appointment and remuneration; salary levels

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

The Extraordinary General Shareholders Meeting, by virtue of Resolution No. 3 of 16 November, defined a change in rules and the amount of remuneration for the members of the Company's Supervisory Board to equal an average remuneration in the industrial sector in Q4 2009, and in relation to internal regulations of the Enea Group it was decided that a fixed flat-rate monthly salary will amount to PLN 1 for each month. According to statements made by five members of the Supervisory Board, they have waived their remunerations in full amounts for holding positions in the Supervisory Board.

Total gross remuneration paid in 2015 to the Supervisory Board Members for the performance of their duties at the Company amounted to PLN 811,610.08, including:

Name	Remuneration
Witold Danilowicz	PLN 135,626.67
Eryk Karski	PLN 116,056.67
Stefan Kawalec	PLN 115,026.67
Robert Bednarski	PLN 96,486.67
Raimondo Eggink	PLN 90,966.67
Tomasz Mosiek	PLN 96,486.67
Dariusz Formela	PLN 77,946.67
Michał Stopyra	PLN 83,013.39

In 2015 other members of the Management and Supervisory Boards of LW Bogdanka S.A. did not receive any remuneration for the performance of duties at the Company's subsidiaries.

Resolution No. 26 of the Annual General Shareholders Meeting of 4 July 2013 introduced the Management Options Scheme for 2013-2017.

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672 Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Company's development. This was announced by the Company in Current Report No. 35/2013 of 30 September 2013. Options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares. As at 31 December 2015, a total of 1,143,863 options were allocated within the Management Options Scheme. Additional 41.831 options were, in line with the Terms and Conditions of the Scheme, allocated from the reserve pool to the senior management members (employed in 2014) of key importance for the Company's development.

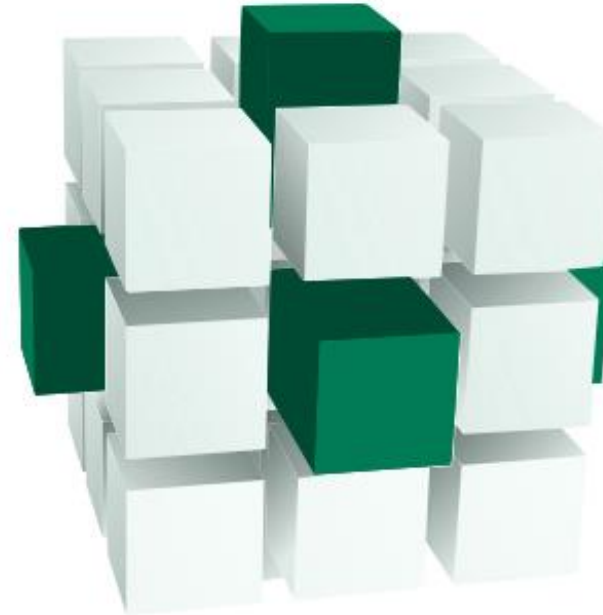
The total cost of valuation of the Management Options Scheme included in the Company's costs as at 31 December 2015 amounts to PLN 9,752,000, of which PLN 1,511,000 was disclosed in the income statement for 2015.

Having assessed the financial statements for 2015, the Company's Supervisory Board will state whether the criteria for exercising the Options by persons covered by the Management Options Scheme for 2015 have been fulfilled.

The information on allocating right to exercise Management Options for 2015 will be announced in periodic report for the first half of 2016.

Details of the Management Options Scheme are contained in the Terms and Conditions of the Management Options Scheme of LW Bogdanka S.A. with registered office in Bogdanka for 2013-2017, attached as an appendix to Current Report No. 35/2013 of 30 September 2013.





## 6. Corporate governance



### Corporate governance rules applicable at LW BOGDANKA S.A. and rules departed from

In 2015, LW BOGDANKA S.A. complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules in the form of the "Code of Best Practice for WSE Listed Companies" were adopted with the resolution of the Board of the Stock Exchange No. 19/1307/2012 of 21 November 2012, effective from 1 January 2013. The Company applies the new "Code of Best Practice for WSE Listed Companies" attached to Resolution of the Board of the Stock Exchange No. 26/1413/2015 of 13 October 2015. The Code of Best Practice for WSE Listed Companies is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl).

#### Corporate governance rules departed from

It is the intention of the Management Board of LW Bogdanka S.A. to observe all corporate governance rules. However, due to the fact that some of the rules may cause excessive financial strain on the Company that would dominate the potential benefits arising from market needs, in 2015 the Company departed from the application of some of the corporate governance rules and recommendations as specified below.

#### Participation of women and men in the bodies of LW Bogdanka S.A.

##### Part. I. Recommendations for Best Practice for Listed Companies – Section 9

*"The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business."*

##### Comment:

The Management Board and the Supervisory Board are composed of both women and men. However, balanced participation of women and men in the governing and supervising bodies of LW Bogdanka S.A. is currently not entirely ensured. The Issuer wishes to note that the appointment of executive and supervisory personnel takes place in accordance with universally applicable regulations and is based on the application documents received from candidates.

The primary criteria applied by the Company in hiring executive and supervisory personnel is a thorough analysis of the candidates' experience, their competencies, skills and technical knowledge. In the Company's opinion, these criteria of assessment of candidates for executive and supervisory positions enable it to select the right persons who bring creativity and innovation and ensure development of LW Bogdanka S.A.'s business.

Decisions on the composition of the Company's Supervisory Board are made by the General Shareholders Meeting, therefore the Company may temporarily not be meeting the requirements of this recommendation. As a result, we are unable to establish whether this departure from Best Practices will be permanent.

#### Organisation of e-General Shareholders Meeting of the Company

##### Part IV. Best Practices of Shareholders – Section 10

*"A company should enable its shareholders to participate in a General Shareholders Meeting using electronic communication means through real-life broadcast of General Shareholders Meetings; real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Shareholders Meeting."*

##### Comment:

The Company has departed from the above rule due to the technical and legal risks which the Company believes exist. In the Company's opinion, introducing the possibility of participating the General Shareholders Meeting via electronic communication means may be associated with the risk of incorrect identification of persons entitled to participate in the General Shareholders Meeting and interfere with smooth progress of the meeting, and, therefore, potential challenging of the validity of any resolutions adopted.

At the moment, the Company's Articles of Association does not provide for participation in the General Shareholders Meeting via electronic communication means in accordance with the provisions of the Commercial Companies Code. The Company does not exclude the possibility of giving the shareholders the possibility of real-time bilateral communication during General Shareholders Meeting sessions in the future.



#### Independence of Members of the Supervisory Board

##### Part. III. Best Practice for Supervisory Board Members – Section 6

*"At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Shareholders Meeting."*

##### Comment:

As a result of changes in the composition of the Supervisory Board of the Company, i.e. dismissal of Mr Robert Bednarski, Mr Witold Daniłowicz, Mr Raimondo Eggink, Mr Dariusz Formeła, Mr Eryk Karski, Mr Stefan Kawalec and Mr Tomasz Mosiek, who, along with Mr Michał Stopyra, were independent Members of the Supervisory Board, and appointment of new Members, at the moment the only Member of the Supervisory Board meeting the criteria of independence described in Rule III.6 of Best Practices is Mr Michał Stopyra.

Due to the fact that decisions on the composition of the Supervisory Board are made by the General Shareholders Meeting, we are unable to establish whether this departure from Best Practices will be permanent.



### The main characteristics of internal audit and risk management systems used by the issuer with regard to the process of drawing up financial statements

LW BOGDANKA draws up separate and consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties.

Control mechanisms intended for implementation of the following control aims have been implemented in LW BOGDANKA S.A.:

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;
- Reliability and completeness – all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;
- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and finance personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

LW BOGDANKA and its subsidiaries, Łęczyńska Energetyka and RG Bogdanka (as from 1 January LW Bogdanka S.A.), maintain accounting ledgers and draw up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), as well as with the related interpretations announced in the form of regulations of the European Commission. Other subsidiaries, when preparing financial information for the consolidation purposes apply the same accounting policies as LW BOGDANKA. The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel BOGDANKA S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act

of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Audit and Internal Control Department within the Company's organisational structure, operating pursuant to the Rules of Audit and Internal Control, is also of significance. The internal audit system at Lubelski Węgiel BOGDANKA S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues a relevant opinion. A chartered auditor is appointed by the Company's Supervisory Board from among reputable audit firms in accordance with recommendations made by the Audit Committee, which, among other things, pays due attention to ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.







Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A.

Shareholder	29 October 2015	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK Nationale Nederlanden (ING) Otwarty Fundusz Emerytalny	5,157,502	15.2
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	4,793,441	14.1
Other	3,320,377	9.8
Total	20,742,270	60.9
	34,013,590	100.00



Shareholder	21 March 2016	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
Grupa Enea S.A.*	22,448,834	66.0
Other	11,564,756	34.0
Total	34,013,590	100.00

\* According to the Notification received on 30 October 2015, (for more information see Current Report No. 39/2015).

**Shares and shareholding**

A detailed description of the share capital structure, shareholding structure, changes in its structure in 2015 as well as possible changes in the structure is described in Chapter 4, Shares and shareholding.

**Owners of all the securities which entitle to special control rights**

LW BOGDANKA S.A. has not issued any securities which would entitle shareholders to special control rights.

**Restrictions on exercising the voting right**

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on exercising the voting right at the General Shareholders Meeting of the Company.

**Restrictions on transferring ownership of the Company's securities**

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on transferring ownership of the Company's securities.

**Description of the rules governing the amendments made to the Company's Articles of Association**

Amendments to the Articles of Association of LW BOGDANKA S.A. shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Company's Articles of Association as well as provisions of the Commercial Companies Code.

If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

After the General Shareholders Meeting amends these Articles of Association, the Management Board shall draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, in the event of amending the Articles of Association, the Regulation of the Minister of Finance of 19 February 2009 (Dz. U. [Journal of Laws] 09.33.259, as amended) on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.



**Governing bodies**  
**Management Board**

**Appointment of Management Board members**

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.;

Pursuant to the Articles of Association of Lubelski Węgiel BOGDANKA S.A., the Management Board shall be composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board shall be appointed for a joint term of office lasting three years.

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

**Dismissal of Management Board members**

In compliance with the Company's Articles of Association currently in effect, each Management Board member may be dismissed or suspended from office by the Supervisory Board.

**Management Board for the 8th and 9th term of office**

**8th (until 23 Nov. 2015)**

Zbigniew Stopa	President of the Management Board
Yves, Marie, Gerard, Roger de Bazelaire de Boucheporn	Vice-President of the Management Board, Economic and Financial Affairs
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics
Krzysztof Szlaga	Vice-President of the Management Board, Procurement and Investments

**9th (from 23 Nov. 2015)**

Zbigniew Stopa	President of the Management Board
Piotr Janicki	Z-ca Prezesa Zarządu ds. Ekonomiczno-Finansowych
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics
Jakub Stęchły	Vice-President of the Management Board, Procurement and Investments



**Zbigniew STOPA – President of the Management Board**

Zbigniew Stopa graduated in 1984 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree, specialising in Deposits Exploitation Technology. In 1997 he completed postgraduate studies at the Central Mining Institute in Katowice in the field of Occupational Health and Safety Management. He attended a wide range of training sessions and specialist courses (the fundamentals of economics, human resource management, finance for managers) as well as completed a course for supervisory board members of State Treasury companies.

Zbigniew Stopa's career has always been connected with Lubelski Węgiel BOGDANKA S.A. and its legal predecessors. In 1984-1985 he underwent a training program underground, while from 1985 to 1987 he worked as an underground overman. In 1987 he was appointed to the position of an underground shift foreman, and towards the end of that year, to the position of an underground section foreman. In 1991+2006 he worked as an underground chief foreman. From May to December 2006 he served as the Manager of Mining Works of Nadrybie mining field. On 15 December 2006 he was appointed Vice-President of the Management Board - Production Director. On 27 September 2012, Mr Zbigniew Stopa was entrusted, by the Supervisory Board, with the task of acting President of the Management Board, and since 23 November 2011 Mr Zbigniew Stopa has been holding the position of the President of the Management Board of Lubelski Węgiel BOGDANKA S.A.

Zbigniew Stopa holds the following qualifications approved by the State Mining Authority: head of the mining works department (1997), higher-rank mining supervisor (1991). In 2007 he was appointed a member of the Mining Occupational Health and Safety Committee affiliated with the State Mining Authority in Katowice by the President of the State Mining Authority.

**Piotr JANICKI - Vice-President of the Management Board, Economic and Financial Affairs**

Since 2013, he has been responsible for financial affairs at Enea Wytwarzanie. Present in the power industry for fourteen years. For six years, he was a Member of the Management Board and Chief Financial Officer at the Białystok Heat & Power Plant. During that time, he gained experience in managing a company that operates in the power production industry, with particular focus on managing the company's financial affairs. He participated in a process of deep restructuring of the Białystok Heat & Power Plant, which led to a material improvement in the Company's economic efficiency ratios. On 23 November 2015, he was appointed by the Supervisory Board of LW Bogdanka to the position of the Vice-President of the Management Board, Economic and Financial Affairs.

He obtained an MA Diploma from the Faculty of Economics at the University of Białystok, as well as a Postgraduate Diploma in International Accounting Standards / International Financial Reporting Standards from the Kozminski University in Warsaw.

**Waldemar BERNACIAK - Vice-President of the Management Board, Trade and Logistics**

Waldemar Bernaciak graduated in 1979 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree in mining and geology, specialising in Mine Design and Construction. In 1999 he completed postgraduate studies in the field of management and logistics and received a diploma of the University of Illinois at Urbana – Champaign. In 2001 he graduated from the School of Controlling in Katowice. Furthermore, he attended a number of specialist training courses (including a course on planning and production management in a coal mine at the Silesian University of Technology, logistics, materials management and stock optimisation). He also completed a course for supervisory board members of State Treasury companies.



### Governing bodies Management Board

From the outset his career has been in the mining industry. From 1979 to 1997 he was employed by Kombinat Budownictwa Górniczego WSCHÓD and its legal successors, where he held various positions, starting with a trainee miner, through an overman, shift foreman, section foreman, senior mining, engineering and construction specialist to the chief foreman (deputy mining works manager). For a decade, from 1997, he served as the Head of Materials and Machine Management Department at Lubelski Węgiel BOGDANKA S.A., while from February to August 2007 as the Head of Logistics. In August 2007 he was appointed Vice-President of the Management Board - Director for Mine Expansion, Trade and Logistics. Next, for several months he served as the acting President of the Management Board – Managing Director. On 16 February 2008 he returned to the position of Vice-President of the Management Board - Director for Mine Expansion, Trade and Logistics. In October 2008 he was appointed Vice-President of the Management Board, Trade and Logistics and has held that position ever since. Waldemar Bernaciak holds the following qualifications recognized by the District Mining Authority in Lublin: Lower-rank mining supervisor, intermediate-rank mining supervisor, higher-rank mining supervisor, mining works manager.

#### **Jakub STĘCHŁY – Vice-President of the Management Board, Procurement and Investments**

He graduated from the Silesian University of Technology in Gliwice in the following areas: Automation and Robotics, Electronics and Telecommunications, Computer Science, as well as from the Polytechnic University of Milan in Management, Economics and Industrial Engineering. Mr Jakub Stęchły also obtained a Postgraduate Diploma in Business Value Development and Business Valuation from the University of Dąbrowa Górnicza. He completed a number of expert courses and training sessions.

Since March 2015, he has been the President of the Management Board of ENEA Serwis sp. z o.o. Present in the power industry since 2011 when he took up work at TAURON Polska Energia S.A. Then, in March 2014, he became the Strategic Controlling Office Manager at ENEA S.A. in Poznań, where he was, among other things, responsible for formulating investment plans at the Group level. In his professional career, he controlled and participated in numerous key undertakings relevant to both the Company managed and the entire Group.

#### **Description of operations and authorisations**

Pursuant to the Company's Articles of Association, the Management Board of LW BOGDANKA S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board. In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

- adopting the Rules of Procedure for the Management Board,
- adopting the Company's Organisational Rules,
- creation and liquidation of the Company branches,
- appointment of a proxy,
- contracting loans,
- adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
- assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
- acquiring non-current assets with a value exceeding the amount of PLN 100,000.00 (one hundred thousand zloty),
- disposing of non-current assets with a value exceeding the amount of PLN 50,000.00 (fifty thousand zloty),
- any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW BOGDANKA S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW BOGDANKA S.A. pays due attention to transparency and efficiency of the management system of the Company and to the maintenance of its affairs in compliance with the provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Declarations of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The power of proxy may be revoked by any and each of the Management Board members.

#### **Tasks and obligations of the members of the Management Board in 2014**

##### **In accordance with the Company's Organisational Rules:**

##### **The President of the Management Board (D):**

- Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards.
- Represents the Company in relations with third parties.
- Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
- Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
  - company organisation,
  - supporting the operations of the Company's governing bodies,
  - privatisation, Company restructuring,
  - ownership supervision and capital investments,
  - internal structural and ownership transformations,
  - providing information and reports to investors, shareholders and stock exchange institutions,



### Governing bodies

#### Management Board

- Implementing the LW BOGDANKA S.A.'s strategy and the Company's long-term plans, as well as implementing strategic management and project management at the Company;
  - project management;
  - co-operation with the media and the information policy;
  - current records archive and general secretariat;
  - internal audit in the Company;
  - matters of defence;
  - HR policy, employee and social issues;
  - occupational health and safety, training courses;
  - future plans with regard to the development and modernisation of the production process;
  - protection of personal data and confidential information;
  - monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant;
  - conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse;
  - management of risks at the Company;
  - ethics;
  - monitoring the quality of construction ceramics.
- Indirectly supervises the performance of assignments by organisational units, whose scope of activity covers:
- extracting and producing commercial coal;
  - maintaining and developing production capacity;
  - environmental protection, stone management and mining damage;
  - deposit management planning;
  - keeping surveyor and geological records, as well as production records;
  - technical and financial advancement;
  - organising and planning the production and development of the mine;
  - research and implementations.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions

of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

#### The Vice-President for Economic and Financial Affairs (DE)

The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:

- managing the Company's finances;
- pay and insurance policies;
- economic and financial analyses;
- reporting and statistics;
- budgeting and controlling;
- supervising Company value management;
- supervising financial and accounting services;
- supervising the accountancy and settlements with business partners;
- economic effectiveness of investment projects;
- developing the rules for managing short-term securities;
- computerisation of the Company;
- inventory.

#### The Vice-President for Trade and Logistics (DH)

The Vice-President for Trade and Logistics organises and supervises the Company's operations in the following areas:

- sales and wholesale shipping of coal;
- sales of construction ceramics;
- coal warehousing;
- market analyses;
- rail transportation.

#### Vice-President of the Management Board, Procurement and Investments (DI)

Vice-President of the Management Board, Procurement and Investments organises and supervises the Company's operations in particular in the following areas:

- investment activity, capex planning, machinery purchases and overhauls as well as maintenance of buildings and structures;
- budgeting and estimating costs of services and purchases;
- organising and holding tenders, concluding contracts and

verifying them in terms of legal and formal issues;

- waste utilisation and recycling;
- warehouse materials management and logistics (on ground).

#### Information about Management Board meetings and the resolutions adopted

In the reporting year 2015 the Management Board appointed for the 8th and the 9th term held 97 minuted meetings and adopted a total of 1,583 resolutions.

The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Company's ordinary management and at the request of individual Management Board members.

#### Information on powers of proxy granted and revoked

In 2015 the Company did not grant any power of proxy.





**Governing bodies**  
**Supervisory Board**

**Appointment and removal from office of the Supervisory Board members**

The rules concerning appointment and removal from office of the Supervisory Board members of the Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.

In accordance with the Articles of Association of LW BOGDANKA S.A., the Supervisory Board consists of 5 (five) to 9 (nine) members. The members of the Supervisory Board are appointed individually the term of office of three years as well as removed from office by the General Shareholders Meeting. Members of the Supervisory Board may be removed from office by the General Shareholders Meeting at any time.

A Supervisory Board member shall file his/her resignation in writing to a member of the Management Board or to a proxy. The Management Board member or the proxy who receives the resignation shall promptly notify the other members of the Management and Supervisory Boards of the same.

The mandates of the Supervisory Board Members expire not later than on the date when the General Shareholders Meeting approves the report on operations and the financial statements for the last full financial year when the Supervisory Board Members performed their function.

**Composition of the Supervisory Board**

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year individual term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting.

In 2015 the Company's Supervisory Board operated in the following compositions:

**Composition of the Supervisory Board until 18 Jun. 2015**

Witold Daniłowicz	Chairman
Stefan Kawalec	Deputy Chairman
Raimondo Eggink	Secretary
Robert Bednarski	Member
Dariusz Formela	Member
Eryk Karski	Member
Tomasz Mosiek	Member
Michał Stopyra	Member

**Composition of the Supervisory Board as from 18 Jun. 2015 until 16 Nov. 2015**

Witold Daniłowicz	Chairman
Stefan Kawalec	Deputy Chairman
Raimondo Eggink	Secretary
Robert Bednarski	Member
Dariusz Formela	Member
Eryk Karski	Member
Tomasz Mosiek	Member
Michał Stopyra	Member

On 28 October 2015 Raimondo Eggink submitted to the Company's Management Board a statement on his resignation from the position of the member of the Supervisory Board of LWB S.A. with immediate effect.

**Composition of the Supervisory Board as from 16 Nov. 2015**

Dalida Gepfert	Chairman
Paweł Orlof	Deputy Chairman
Krzysztof Matan	Secretary
Magdalena Kaczmarek	Member
Bartosz Krysta	Member
Michał Stopyra	Member

On 9 December 2015 Paweł Orlof submitted to the Company's Management Board a statement on his resignation from the position of the member of the Supervisory Board of LWB S.A. with the effect as of 8 December 2015. On 14 January 2016 Dalida Gepfert submitted to the Company's Management Board a statement on his resignation from the position of the member of the Supervisory Board of LWB S.A. with the effect as of 14 January 2016.

**Composition of the Supervisory Board as from 23 Feb. 2016**

Mirosław Kowalik	Chairman
Wiesław Piosik	Deputy Chairman
Szymon Jankowski	Secretary
Magdalena Kaczmarek	Member
Przemysław Krasadomski	Member
Michał Stopyra	Member

**Description of activities**

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations. The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

**The responsibilities of the Supervisory Board include:**

- assessment of the Directors' Report on the Company's operations and financial statements for the preceding financial year regarding their conformity with books, documents and facts, as well as the assessment of the consolidated financial statements of the capital group, if such a report is prepared.
- assessing motions of the Management Board regarding the distribution of profits or covering of losses;
- submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
- selecting a chartered auditor to audit annual financial statements and consolidated financial statements of the Company's capital group;
- determining the scope and deadlines for the Management Board's submission of annual material and financial plans (technical and economic) and long-term strategic plans;
- approving of the Company's long-term strategic plans as well as changes thereto;



## Governing bodies Supervisory Board

- approving of the Company's annual business plans (specifying the tasks to be performed and the related budgets) as well as changes thereto,
- adopting rules laying down the detailed procedure followed by the Supervisory Board;
- adopting for the Company's internal purposes the uniform text of the Company's Articles of Association prepared by the Company's Management Board,
- approving the Management Board rules;
- approval of the Rules of Procedure of Internal Audit and Control as well as changes thereto.

### The powers of the Supervisory Board shall include granting consent to the Management Board for the following:

- acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 250,000.00;
- acquisition, sale or production of non-current assets, non-current assets in construction or intangible assets which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, if the value of one or more related transactions exceeds the PLN equivalent of EUR 5,000,000;
- establishment of a security regarding any liability of the Company or a third party, if the value of one or more related transactions exceeds the PLN equivalent of EUR 1,000,000;
- entering into an agreement by the Company or performing any other legal act other than those indicated in 2) or 3), which is not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, where the total value of the Company's benefits or receivables (with respect to one or more related legal actions and regardless of a period which they cover), exceeds the PLN equivalent of EUR 10,000,000, except for agreements entered into as part of the Company's core business;
- conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 10,000, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association;
- entering by the Company or by its subsidiary into a

significant contract with an entity related to the Company, a member of the Supervisory Board or a member of the Management Board, and with entities related to them. The obligation to express consent does not concern typical arm's length transactions concluded as part of the operating activity by the Company and a subsidiary in which the Company holds a majority equity interest;

- entering by the Company into a credit, loan, or surety agreement or any similar agreement with a member of the Management Board, a proxy, a liquidator, or for the benefit of any of those persons;
- contracting liabilities, i.e. a loan, credit, security or similar, which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, whose value (except for interest on repayable funds) exceeds the PLN equivalent of EUR 25,000,000, except for the issue of securities referred to in Article 52.3.5 (of the Company's Articles of Association);
- granting by the Company of a loan, a guarantee, issuing a bill of exchange or granting other indebtedness;
- granting consent to the creation of foreign branches of the Company;
- granting consent to paying to the Shareholders an advance for the expected dividend at the end of a financial year.

### Additionally, the Supervisory Board's powers shall include in particular:

- appointing and dismissing members of the Management Board,
- establishing the remuneration rules and remuneration amounts to be received by the Management Board members,
- suspending the members of the Management Board from office for important reasons,
- delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,
- representing the Company in agreements and disputes between the Company and the Management Board members,
- granting permission to Management Board members for accepting positions on the governing bodies of other

entities,

- approval of dismissal of a person in charge of the Company's organisational unit responsible for internal audit and control.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, are defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee is the standing committee at the Supervisory Board.

### Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2015.

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of no less than three members, at least one of whom shall meet the requirement of being an independent member within the meaning of the Polish Act on Chartered Auditors. The task of the Audit Committee shall be advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its Group, as well as chartered auditors auditing the Company's financial statements.

In particular, the duties of the Audit Committee shall include:

- monitoring the process of financial reporting and performing audits,
- monitoring the effectiveness of the following systems: internal control, internal audit and risk management,
- cooperation with the chartered auditor auditing the financial statements of the Company, as well as monitoring the autonomy of the chartered auditor and an entity authorised to audit the financial statements, and recommending to the Supervisory Board the chartered auditor to be selected,
- discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and

providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.



## Governing bodies Supervisory Board

In 2015 the **Audit Committee** operated in the following compositions:

### Composition of the Audit Committee until 16 Nov. 2015

Eryk Karski	Chairman
Robert Bednarski	Member
Raimondo Eggink	Member
Tomasz Mosiek	Member

In relation to appointing the Supervisory Board in a new composition, on 16 November 2015, on the first meeting of the Company's Supervisory Board, on 23 Nov. 2015 a new Audit Committee was appointed.

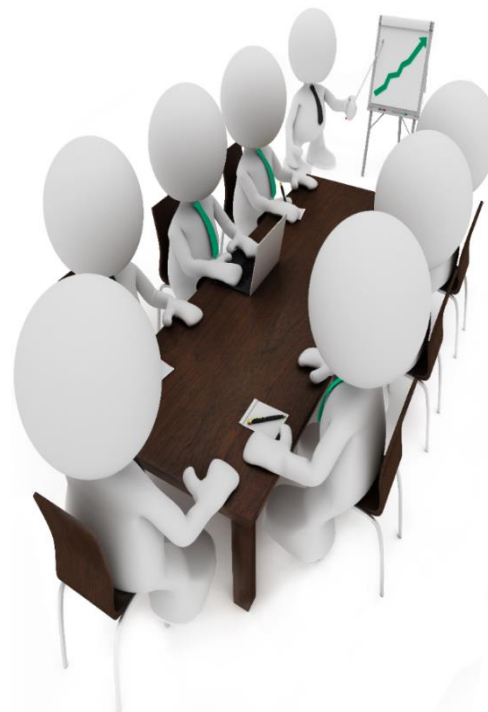
### Composition of the Audit Committee as from 23 Nov. 2015

Dalida Gepfert	Chairman
Magdalena Kaczmarek	Member
Michał Stopyra	Member

On 14 January 2016 the Company received notification from Ms Dalida Gepfert of her resignation from the Function of the Member of the Supervisory Board and the Chairman of the Audit Committee, with the effect as from 14 January 2016.

On 3 March 2016 the Supervisory Board of LW Bogdanka S.A. appointed Przemysław Krasadomski to perform the function of the Audit Committee..

Przemysław Krasadomski	Chairman
Magdalena Kaczmarek	Member
Michał Stopyra	Member



## Appointment and Remuneration Committee

The Appointment and Remuneration Committee assessed the Management Board's performance of quantitative and qualitative targets as well as solidarity objective for 2014 within the MBO procedure, and prepared Goals Sheets for 2015. The Committee also prepared recommendations for the Supervisory Board on the selection of a HR consultant.

### Composition of the Appointment and Remuneration Committee until 16 Nov. 2015

Stefan Kawalec	Chairman
Raimondo Eggink	Member
Michał Stopyra	Member

## Strategy Committee

### Composition of the Strategy Committee until 16 Nov. 2015

Dariusz Formela	Chairman
Stefan Kawalec	Member
Tomasz Mosiek	Member

The Strategy Committee assessed the preparations for updating the Company's strategy.



### General Shareholders Meeting

#### **Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting**

The General Shareholders Meeting of LW BOGDANKA S.A. holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and Article 44 of the Company's Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website, in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the General Shareholders Meeting with the right to vote.

certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A., members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.

Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.



The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports,
- adopt a resolution on the distribution of profit or coverage of loss,
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties,
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members,
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts,
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon,
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator,
- increase in or reduction of the Company's share capital,
- issue of bonds of any type,
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code,
- mandatory redemption of shares in accordance with the Commercial Companies Code,
- creation, use and release of capital reserves,
- use of statutory reserve funds,
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company, merger, transformation or demerger of the Company,
- amendments to the Company's Articles of Association, including changes to the Company's business profile, dissolving and liquidating the Company,
- establishment of another company by the Company,
- subscription for or acquisition of shares in another company,
- disposal of subscribed for or acquired shares in another company.





## General Shareholders Meeting, Dividend

### Information of General Shareholders Meetings held in 2015

In 2015 one Annual and two Extraordinary General Shareholders Meetings were held:

#### Annual General Shareholders Meeting as at 18 June 2015 – held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 18 June 2015:

- Opening of the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Considering the Financial Statements and Directors' Report on Operations of LW BOGDANKA S.A. for 2014.
- Considering the Consolidated Financial Statements of the LW BOGDANKA Group and the Consolidated Director's Report on Operations of the LW BOGDANKA Group for 2014.
- Presentation of the Management Board's motion regarding the distribution of net profit for 2014.
- Presentation of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for 2014.
- Adopting resolutions on:
  - approval of the Financial Statements of LW BOGDANKA for 2014,
  - approval of the Directors' Report on Operations of LW BOGDANKA for 2014,
  - approval of the Consolidated Financial Statements of the LW BOGDANKA Group for 2014,
  - approval of the Directors' Report on Operations of the LW BOGDANKA Group for 2014,
  - granting discharge to the members of the Management Board of LW BOGDANKA S.A. for the performance of duties in 2014,
  - approval of the Report of the Supervisory Board of LW BOGDANKA S.A. for 2014,
  - granting discharge to the members of the Supervisory Board of LW BOGDANKA S.A. for the performance of duties in 2014,
  - distribution of net profit for the financial year 2014,

- specifying a dividend date and a date of the dividend payment.

- Adopting resolutions on Amendments in the Company's Articles of Association.
- Adopting resolutions on appointing the members of the Supervisory Board.
- Miscellaneous.
- Closing of the General Shareholders Meeting.

#### Extraordinary General Shareholders Meeting as at 15 October 2015 – held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 15 October 2015:

- Opening of the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Adopting resolutions on Amendments in the Company's Articles of Association,
- Miscellaneous.
- Closing of the General Shareholders Meeting.

#### Extraordinary General Shareholders Meeting as at 16 November 2015 – held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 16 November 2015:

- Opening of the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Adopting resolutions on Amendments in the Company's Articles of Association,
- Miscellaneous.

- Closing of the General Shareholders Meeting.

Information on adopted resolutions as well as all documents are available at the Company's website [www.ri.lw.com.pl](http://www.ri.lw.com.pl).

#### Dividend policy

The Management Board has been analysing the dividend policy for the following years in consideration of local and global trends and price conditions. Securing liquidity and financial stability are key for the Company. The dividend policy for the years to come will be adopted and announced along with the Strategy of the operations.

#### Dividend for 2014

On 18 June 2015, the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. in Bogdanka, acting under Article 395.2.2 of the Commercial Companies Code and Article 52.1.2 of the Company's Articles of Association, considering the assessment made by the Supervisory Board, decided that the net profit generated by the Company in 2014 in the amount of PLN 272,942,404.07 (two hundred and seventy-two million nine hundred and forty-two thousand four hundred and four zlotys 07/100) would be distributed as follows:

- PLN 119,047,565.00 (one hundred and nineteen million forty-seven thousand five hundred and sixty-five zlotys 00/100) – for a dividend, i.e. PLN 3.50 (three zlotys 50/100) per share.
- PLN 153,894,839.07 (one hundred and fifty-three million eight hundred and ninety-four thousand eight hundred and thirty-nine zlotys 07/100) – for the Company's supplementary fund.

The above proposal is compliant with the dividend policy for 2013-2015 announced by the Company. The number of shares covered by the dividend is 34,013,590 shares. Further, the General Shareholders Meeting scheduled the dividend date for 17 September 2015, and the dividend payment date for 8 October 2015.





## Cooperation of the Company with representatives of the employees and local community

The dominant values cherished by LW Bogdanka S.A. are as follows: honesty, professionalism and responsibility. These values ensure the harmonious development of the Company pursuing its economic objectives in line with the expectations of the society and the requirements of the environment.

The Company is consistently and systematically implementing the "Corporate Social Responsibility Strategy for 2014-2017". The updated approach to social responsibility management may be defined in a nutshell as: "Safety of workforce, protection of local community and natural environment. Sustainable and foreseeable development and growth in value of the company." The strategy itself is based on the continued following of four priorities:

- To strive to increase the safety of workforce
- To guarantee the safety of local natural environment
- To ensure safety and support development of local community
- Transparent and responsible management practices

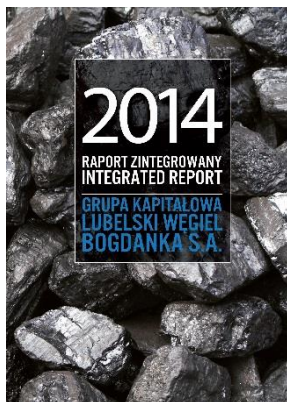
LW Bogdanka's CSR activities are implemented in accordance with the recommendations of the standard PN-ISO 26000, developed by the International Organisation for Standardisation in 2010, which is a guide for organizations in terms of the application of the principles of social and environmental responsibility.



on Social Responsibility, defined as the responsibility of the organization for the impact that its decision and activities have on the society and the environment, through transparent and ethical behaviour in key areas, such as:

- corporate governance
- human rights
- work practices
- dialogue session with trade unions
- environment
- fair operating practices
- consumer-related issues
- social involvement and development of the local community

### Reporting



In June 2015, LW Bogdanka S.A. released the Group's Integrated Report for 2014 developed in line with the newest GRI Guidelines, G4. The Report includes indicators that are characteristic for the mining industry. The Report for 2014 covered all subsidiaries (MR Bogdanka sp. z o.o., RG Bogdanka sp. z o.o., EkoTrans sp. z o.o., Łęczyńska Energetyka sp. z o.o.), and presented financial results and social impact. Reliability of the Report and its compliance with the Guidelines was supervised by a third party expert who also supported its preparation.

- Integrated Enterprise Risk Management System (ERM) and IT Risk Manager – risk management system of LW Bogdanka S.A. is based on policies and procedures such as: LW Bogdanka Corporate Risk Management Policy, LW Bogdanka Corporate Risk Management Model – ERM Procedures, LW Bogdanka Risk Register, LW Bogdanka Risk Map, List of Strategic Risks of LW BOGDANKA, and Programs of Strategic Risk Mitigating Measures at the Company
- Integrated Management System – operational management at LW Bogdanka is based on an integrated system compliant with the following standards: PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, and PN-N-18001:2004. In addition, the occupational health and safety management system is compliant with British standard BS OHSAS 18001:2007.

### Ethics as component of the organisational culture

"LW Bogdanka S.A. is a company with an extensive organisational culture, an effective ethical programme, a consistent system of values, and, above all, a mission with the common good as its main purpose. The Company's competitive position in the marketplace and the continued growth of trust in the relations with various groups of stakeholders confirm that LW Bogdanka S.A. was right to choose and promote management through values," says dr Monika Baczevska-Ciupak, Department of Ethics, Faculty of Philosophy and Sociology, Maria Curie-Skłodowska University (UMCS) in Lublin.



The existing Code of Ethics, which was for the first time published in 2011, is modified and improved on an ongoing basis in response to the constant monitoring of the Company's situation and its activities.

The following documents were developed in 2015: "Supplier Code of Conduct of LW Bogdanka S.A."; "Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company's Code of Ethics"; information regarding "Compliance with the Rules of Ethics at Interviews with Injured Parties and Witnesses for the Purposes of Developing Accident Reports". In addition, 60 people were trained in compliance with the Company's ethical standards.

Educational and awareness campaign is conducted on an ongoing basis with the use of such tools as plasma screens, the "Bogdanka" corporate newspaper and the Intranet, with a view to exposing and promoting ethical values recognized in LWB.

## Cooperation of the Company with representatives of the employees and local community

### Trade unions



Four trade union organisations operate at the Company. As at 31 December 2015, the size of the individual trade unions was as follows:

- "Solidarność" Independent Self-Governing Trade Union – 1,127 members,
- Trade Union of Miners in Poland – 1,544 members,
- "Kadra" Trade Union – 271 members,
- "Przeróbka" Trade Union – 270 members.

As at 31 December 2015, there were 4,555 employees employed at the Company. In total, 3,212 employees belonged to union organisations, which constitutes 70.52% of the total head count. Each of these union organisations includes members who belong to several union organisations – in total 73 employees. Cooperation of the Management Board of LW BOGDANKA S.A. with the management boards of union organisations is constructive. Union organisations participate in decision-making to the extent provided for by the law.

### Social dialogue

As part of the monitoring of the CSR Strategy, we review the key groups of stakeholders and the current and desired forms of dialogue with them. In the case of these key groups, the communication is very regular, direct and often at the highest level, enabling ongoing consultation in important matters.

In 2015, we held: 22 dialogue sessions with the trade unions and the matters discussed included pay negotiations; 23 meetings of the Social Benefits Commission composed of representatives of the employer and the trade unions; and 2 scheduled meetings of the Conciliation Team for Periodic Assessment of the Impact of Mining on the Surface in the Communes of Cyców, Ludwin and Puchaczów, with the participation of the Director of Regional Mining Office in Lublin, who chairs the Team.

### Collective disputes

Between 17 June and 4 August 2015, a labour dispute took place between all the trade unions and the employer, related to the difference of opinion regarding work organisation, outsourcing of underground work, job protection and remuneration policy in the Company in 2015. On 22 July 2015, all trade unions held a demonstration, during which the Management Board of the Company was handed in a petition.

The trade unions requested that jobs be protected, that only work which cannot be done by the Company's own workforce be outsourced, and that the average monthly salary be kept at the 2014 levels.

The Management Board of the Company held mass meetings with the staff in all three mining fields, and on 4 August the parties reached a compromise: putting additional funds in the Company Social Benefits Fund, limiting dismissals of employees only to those justified by negative assessment of their work, undertaking efforts to make outsourcing more rational, and average pay at the 2013 levels, subject to the final decision of the parties to the agreement on the level of average monthly salary for 2015 in January 2016 based on the Company's performance in 2015 and the level of supply contracting for 2016 (volume and price).

### Effectiveness of safety management in the workplace

At LW Bogdanka S.A., issues related to occupational health and safety (OHS) management are part of the Integrated Health and Safety, Quality and Environment Management System at Lubelski Węgiel Bogdanka S.A.

In May 2015, LW Bogdanka S.A. took an audit for compliance with ISO standards. In their conclusions, the team of auditors confirmed that the organisation has a quality management system consistent with the requirements of the reference standards. The organisation has demonstrated the ability of the system to achieve objectives within the predefined scope of the system.

At the moment, the Company is implementing several (facultative) OHS solutions. They include: placement of telecardiographs for independent heart rate monitoring across the mine, ensuring availability of a defibrillator and Kazik machines for collection of personal protective equipment (PPE), and organisation of events – safety days.

**TELEMEDYCYNAPOLSKA**  
lider teleopieki kardiologicznej

Biuro Ośrodku Klinicznego - 32 376 14 55  
w dni powszednie w godz. 8:00 - 18:00  
Kardiologia Centrum Monitoringu Kardiologicznego  
telemedycyny i procedur  
tel. 32 376 18 00 całonocowo, we wszystkich dniach roku

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Usługa Kardiotele polega na całonocowej /we wszystkie dni roku/ teleopiece kardiologicznej, wraz z możliwością wykonywania, przesyłania i konsultowania badań EKG z lekarzem specjalistą przez telefon. Wykonywane badania EKG są archiwizowane z możliwością wysłania do pacjenta.

Z Kardiotele możesz korzystać zawsze, gdy masz taką potrzebę, gdy czujesz się źle, a także profilaktycznie, aby na bieżąco kontrolować stan swojego serca.

Opłaty za połączenie telefoniczne obciążają linię telefoniczną /numer/, z której realizowane jest połączenie.  
Koszty połączenia komórkowego (GSM) zgodnie z taryfą operatora.  
Koszty połączenia nie zawierają się w kwocie opłaty abonamentowej.

Przesłanie wyników badań: -bezpłatnie przy transmisji mail-owej lub 1 PLN (słownie 1 złotych) za każdą kartkę + koszty przesyłki.

**Aparat do wykonywania EKG znajduje się w Punkcie Wydawania Przyrządów Pomiarowych /lampownia/ na poszczególnych polach.**




**TELEMEDYCYNAPOLSKA**



## Cooperation of the Company with representatives of the employees and local community

In August 2015, we held Safety Days. During three days of training and consultation, employees of the Company could learn about matters such as proper use and maintenance of hearing, head and eye protection, combined with building awareness of the risks, or hearing protection and improvement of communication in noisy work environment through the use of hearing protectors with a wireless communications set. In addition, during the Safety Days we tested the employees' knowledge about occupational health and safety, which was the first stage of the "Protect Your World" competition.

### Close to nature

Effective environmental management is based on the Integrated Health and Safety, Quality and Environment Management System. It complies with PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, PN-N-18001:2004 and, additionally, as regards health and safety, with the British standard BS OHSAS 18001:2007.



LW Bogdanka S.A., in cooperation with the Polish Society for the Protection of Birds (OTOP), opened a new educational path, Nadrybie. It runs around the Nadrybie Lake – and artificial reservoir created as a result of mining works. The Nadrybie path is located within the Łęczna Lake District Landscape Park, in an area with particular natural value and protected by the Natura 2000 network.

*"At the Nadrybie Lake we may encounter many species of birds, including rare ones, listed in the Polish Red Book. In spring, we may see the white-winged tern, the whiskered tern, the black tern, and the black-headed gull, which all come here to feed. We will hear birds such as the great reed warbler, the sedge warbler, the blackcap, the lesser whitethroat and the thrush nightingale, as well as the great bittern, whose call sounds like whistling into a bottle, the little bittern, who sounds like a barking dog, and the water rail, whose call is a pig-like squeal",* says Jarosław Krogulec, Environmental Protection manager of the Polish Society for the

Protection of Birds.

In the course of preparing the path and setting out the trail with educational boards, a survey of the fauna and flora was conducted and a guide for self-sightseeing was published. In addition to the OTOP, the following were engaged in the creation of the path: the Puchaczów Commune Office, the Łęczna District Governor's Office, the Provincial Office of Land Reclamation and Water Facilities, who provided the land for the path, and the Jan and Kazimierz Bogdanowicz Primary School in Nadrybie.

### Relations with the local community

From the very beginning of its existence, LW Bogdanka S.A. has been supporting the local community, including a wide range of local social initiatives, aimed at the development of the cultural, scientific, educational and health realm, construction of communal infrastructure, and answering other needs of the local community. The Company also sponsors sporting and cultural activity. In 2015, LW Bogdanka S.A. made 100 donations in cash and in kind of a total value of PLN 234,766.14.

In June 2015, the Inter-Sectoral Agreement for Life and Health – Lubelski Węgiel Bogdanka S.A., the Solidary Miners Foundation and the Regional Blood Centre in Lublin (RCKiK) signed a tripartite agreement dedicated to the promotion of voluntary blood donation, blood transfusion and registration with the bone marrow donors bank.



The blood-giving tradition at LWB is more than thirty years old, a major contribution to which is the Z. Gola Honorary Blood Donors Club of the Polish Red Cross, and the spontaneous reactions of our employees in solidarity with those who need blood. The aim of

the Agreement is to implement an educational and volunteering programme, involving engagement of the Company's personnel and the local community in blood and bone marrow donation campaigns. This is the first initiative of this kind in the region, combining the efforts of the public, business and non-governmental sectors to support the noble idea of blood and bone marrow donation and transfusion. During this time, four blood and bone marrow donation campaigns were organised at the mine and

in the surrounding communes, there was a Blood Donation Open Day, and educational and informational materials are distributed on a regular basis.

### The Solidary Miners Foundation



The Solidary Miners Foundation, which has been active since the end of 2013, was created to help former and current employees of the mine as well as those working at the mine, their families, accident victims, or persons in a difficult situation.

To date, the Foundation has financed surgeries, medical procedures, treatment, and rehabilitation, financed or co-financed the purchase of medical equipment and devices (a wheelchair, equipment for testing vibrations, a defibrillator, a lift for a disabled person, barrier-free environment, etc.) and access-friendly infrastructure (such as bathrooms and barrier-free architecture) for the disabled. It has also awarded two scholarships for high marks at school, and provided aid to those disadvantaged (holidays, food, financial support, etc.). In total, the different forms of help were distributed to 28 persons or institutions, of which:

- surgeries, medical procedures, treatment and rehabilitation – approx. 44%,
- purchase of medical equipment and devices – approx. 36%,
- access-friendly infrastructure – approx. 11%,
- aid to those disadvantaged (holidays, food, financial support) – approx. 7%,
- scholarships for high marks at school – approx. 2%.

## Cooperation of the Company with representatives of the employees and local community

### Employee volunteering



**C-Zone Education** – there is a dedicated education zone at the mine, where we organise special events and show exhibits, during which we talk about the mining traditions, customs and working at a mine.

**Positive Twist** – a continuing campaign involving collection of screw-on bottle caps for the children and youth from the Little Prince Hospice in Lublin. In 6 months we collected several hundred kilograms of plastic caps.

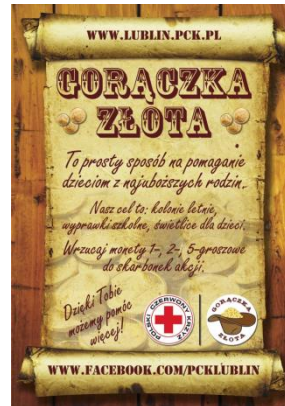


**Holiday food collection** for the Happy Childhood Foundation. The food is used to prepare meals for the children and youth participating in the Foundation's summer camps.



**Noble Box** – in 2015, this was a special event as several grass-root initiatives were organised in each of the different departments of the mine, which meant help for more families. *We would like to very much thank all who joined in and prepared the box. You are good people and your involvement in getting us a gift exceeded our expectations. We thank you very much indeed.*

**Gold Rush** – the project involves getting rid of small coins (1, 2, and 5 grosz) sitting in the wallet. Participation in the project is the initiative of the mine's Z. Gola Honorary Blood Donors Club of the Polish Red Cross. In the first week of the campaign, 32 kg of grosz coins were collected. The funds will be used to finance holiday trips, after school clubs or purchase of school materials for those in care of the Lublin Branch of the Polish Red Cross. The action will continue until 15 June 2016.



### Awards and accolades



**1st place** in the so-called small ranking of socially responsible companies

8 Best Practices made it into the **Responsible Business in Poland. Best Practices** report



**Green Laurel** award for taking action to reduce the mine's impact on the environment

**Economic Award of the President of Poland**



Listing in the **9th edition of the Respect Index**

## Cooperation of the Company with representatives of the employees and local community

### Membership in organisations, participation in industry initiatives

CSR Trends Monitoring Team at the Ministry of Economy



**EURACOAL** (The European Association for Coal and Lignite)



### Participation in the “ESG Analysis of Polish Companies” project with respect to non-financial ESG (Environment, Social, Governance) disclosures of listed companies

The “ESG Analysis of Polish Companies” project organised by the Polish Association of Listed Companies and Crido Business Consulting enables Polish issuers to check how they are judged in the context of non-financial ESG disclosures. They relate to the environmental protection, social responsibility and corporate governance. The study also makes it possible to draw comparisons within a certain industry.

In 2015 LW Bogdanka S.A. once again took part in that project. The Company was once more recognised in this ranking for high quality and transparency of non-financial data communication. The “ESG Analysis of Polish Companies” covered all companies listed on the Warsaw Stock Exchange (including New Connect).



Vision of Sustainable Development for Polish Business (Vision 2050)



School of Underground Exploitation

Polish Association of Listed Companies



**HUGE 2:** Hydrogen Oriented Underground Coal Gasification for Europe – Environmental and Safety Aspects” (international consortium headed by the Central Mining Institute in Katowice)



Raportowanie danych niefinansowych ESG, a odpowiedzialne inwestowanie. Przewodnik dla spółek i inwestorów



Civic Shareholding. Invest Consciously

### Summary

The “Social Responsibility Monitoring of Major Polish Companies” project. The study examined information on selected aspects of corporate social responsibility (12 indicators) of 227 strategic companies in Poland. In the case of LW Bogdanka S.A. 11 out of 12 indicators were successfully verified. (<http://www.centrumcsr.pl/screening-tabela/>).

LW Bogdanka – Investor Friendly Company



LW Bogdanka: PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, PN-N-18001:2004, BS OHSAS 18001:2007; Łęczyńska Energetyka: PN EN ISO 9001:2008 and PN EN ISO 14001:2005



## Glossary



## GLOSSARY:

- **Fairness opinion** – a report from the valuation of a business, a statement certifying that the price of a given transaction is fair
- **EBIT** – earnings before interest and taxes
- **EBITDA** - earnings before interest, taxes, depreciation and amortization
- **Respect Index** – an index of socially responsible companies
- **CSR** – corporate social responsibility
- **IFRS** – International Financial Reporting Standards
- **Audit Committee** – a team within the Supervisory Board responsible for overseeing the company's financial reporting
- **Gross margin on sales** – the rate of return on sales calculated by dividing the profit by the volume of sales
- **EBITDA margin** – operating profit plus depreciation and amortization to total revenue
- **EBIT margin** – ratio of EBIT calculated for a period and the revenue from the sales of the period
- **Gross margin** – ratio of gross profit (before taxes) and net sales
- **Net margin** – ratio of net profit and net sales
- **Return on assets (ROA)** – ratio of a company's net profit to the value of its assets
- **Return on equity (ROE)** – ratio of net profit to equity
- **Debt ratio** – ratio of total liabilities to total assets
- **Debt to equity ratio** - ratio of total liabilities to equity
- **Non-current assets to equity ratio** – ratio of the sum of equity, non-current liabilities, non-current accruals and non-current assets
- **Current debt ratio** – ratio of current debt to total assets
- **Non-current debt ratio** – ratio of non-current liabilities to equity
- **Current liquidity ratio** – ratio of current assets and current liabilities
- **Quick liquidity indicators** – define ability to meet its short-term obligations with its most liquid assets





<b>LW Bogdanka S.A. in numbers</b>	<b>2</b>	<b>3. Financial Standing</b>	<b>49-63</b>
<b>Letter of the President of the Management Board</b>	<b>3</b>	<u>Production, sales and inventories of coal</u>	50
<b>1. Summary of operational activities</b>	<b>4-7</b>	<u>Revenue and key customers</u>	51-52
<u>Selected financial data and key operating data</u>	5	<u>Costs</u>	52-54
<u>Key events in 2015</u>	6-7	<u>Provisions</u>	55
<b>2. Organisation and business activities of LW Bogdanka S.A.</b>	<b>8-48</b>	<u>Selected financial data</u>	56-57
<u>Structure of the Group</u>	9	<u>Impact of the non-recurring event (impairment loss of assets) on the Company's results</u>	58
<u>Company name and registered office</u>	10	<u>Balance sheet and cash flow</u>	59-60
<u>Activities of LW Bogdanka S.A.</u>	11-12	<u>Economic ratios</u>	61-63
<u>Production potential of LW Bogdanka S.A.</u>	13	<b>4. Shares and Shareholding</b>	<b>64-70</b>
<u>Vision, Mission and Market Position of LW Bogdanka S.A.</u>	14	<u>Share capital structure and shareholding</u>	65
<u>Development Strategy of LW Bogdanka S.A.</u>	15	<u>Changes in shareholding structure at LW Bogdanka S.A. in 2015</u>	66
<u>Investment projects</u>	16-18	<u>Dividend policy</u>	67
<u>Licences</u>	19	<u>Price performance of the shares of LW Bogdanka S.A. on the Warsaw Stock Exchange</u>	68
<u>Information on significant agreements</u>	20	<u>Investor relations</u>	69
<u>Agreements concluded</u>	21-23	<u>Analysts recommendations</u>	70
<u>Business environment – international market</u>	24	<b>5. Governing Bodies</b>	<b>71-77</b>
<u>Business environment – domestic market</u>	25-28	<u>Management Board</u>	72-73
<u>Risk management and occupational health and safety</u>	29-38	<u>Supervisory Board</u>	74-75
<u>Natural environment</u>	39-40	<u>Rules of appointment and remuneration; salary levels</u>	76-77
<u>Workforce</u>	41-42	<b>6. Corporate governance</b>	<b>78-94</b>
<u>Average monthly remuneration</u>	43	<u>Statement on application of corporate governance</u>	79-89
<u>Marketing activities of LW Bogdanka S.A. in 2015</u>	44-45	<u>CSR</u>	90-94
<u>Court proceedings</u>	46-47	<b>Glossary</b>	<b>95-99</b>
<u>Other information</u>	48		



## SIGNATURES OF ALL MEMBERS OF THE BOARD

Zbigniew Stopa                      President of the Management Board

Waldemar Bernaciak                Vice-President of the Management Board,  
Trade and Logistics

Piotr Janicki                         Vice-President of the Management Board  
Economic and Financial Affairs

Jakub Stęchły                        Vice-President of the Management Board  
Procurement and Investments

*Bogdanka, 17 March 2016*



**Thank you!**